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p40


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Energy Innovation

How Policy Can Drive Innovation

Governments can help create better ways of meeting global energy demand

As worldwide demand for energy grows, it's clear that meeting it will require enlightened public-sector initiatives and a shared public-private vision. In the still-developing world, some regions and nations are finding more success than others. A leading driver of success is government and regulatory policy that encourages innovation and pushes for energy efficiencies.

"The big decisions and big advancements that happen in energy don't happen in a vacuum," observes Michel Di Capua, Head of Analysis, Americas Region, Bloomberg New Energy Finance (BNEF). "There is always an element of policy. And there is an interesting tension to that, because you often see in the energy industry that business runs well ahead of policy. The world is changing faster than regulators can keep up."

Oil and gas production, experts say, will contribute to supplying the growing energy need, in good part based on the imposition of high standards for recovery rates and other oil field performance measures. The so-called Norwegian Model for petroleum industry management is much studied, including the government mandate for high recovery rates, now passing the remarkable level of 50 percent. "In this instance, government imposed what some would consider an onerous requirement, but at the same time the general structure of the Norwegian tax system has contributed to technology development," says Per Sandberg, Vice President of Innovation at Statoil, a global leader in oil and gas production. "Over time, superior methods were developed, and what began as a set of difficult requirements turned into competitive advantages."

Policy as a driver of innovation

Energy-sector experts like Charlie Blanchard, Lead Natural Gas Analyst at BNEF, are accustomed to seeing best practices arise from necessity. "When a part of the operation gets particularly expensive, the industry innovates its way out of the problem," says Blanchard. A prominent example involves water injection in shale projects, which originally called for fresh water only, and, through experimentation, is now done with recycled water—in some cases, water that goes through multiple "turns" before it is disposed of permanently by being pumped into the depleted petroleum reservoir.

Sandberg's comments about Norway's experience illustrate a second form of necessity: government policy. Again, there must be confidence on the part of ministers that specifying the "what" but not the "how" will suffice, especially where policy also supports the R&D work that will produce new solutions.

Policy challenges are most daunting when they require governments to agree across borders and even oceans on sustainability issues. Carbon dioxide emission is the ultimate test case for policy, according to Eirik Wærness, Chief Economist at Statoil, although the unwinding of fuel-price subsidies, country by country, is also a major priority if innovation is to be truly encouraged.

"Either a global agreement for pricing carbon or a tax, or perhaps trading systems, are required going forward," says Wærness. "Along with that we will need some kind of common set of fuel-efficiency and emission standards that indirectly gives us a price on carbon." The advantage of such agreements would be twofold: "It's the key to avoiding too high a growth in energy demand, and will ensure that we get the right incentives for the right energy mix. That would lead us to produce more gas at the expense of coal, for example. It would also promote the right amount of renewable energies to be developed, and drive research and development in carbon capture and storage."

— David Gould

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Cover Trail

How the cover gets made

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"The cover story is on the Container Store. It's grappling with preserving its ideals while also keeping shareholders happy."

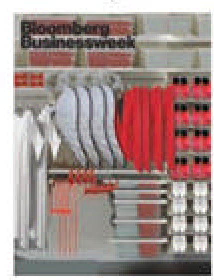
"So it has a choice of either being a 'good' company or making lots of money?"

"That's an oversimplification, but it's an idea that's touched upon in the story."

"It's unfortunate that CEOs are faced with compromising what's truly beneficial for society to make rich people even richer. Thankfully, this isn't endemic in the business world."

(*Silence*)

"You could say this comes down to a dramatic showdown between the primal forces of good and evil. Except with more…Elfa shelving."



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"An angel and a devil locked in the eternal struggle for closet space, like the epic biblical tales of old."

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Corrections & Clarifications

"Forty More Years for Nanna" (Features, Feb. 16-Feb. 22, 2015) misidentified Dr. Mark Fishman, the head of Novartis Institutes for BioMedical Research in Cambridge, Mass., as Novartis Chairman Joerg Reinhardt. Dr. Fishman is also a member of the Novartis executive committee, not, as we indicated, its board of directors. Ⓑ An editing error in "The Semiconductor Revolutionary" (Technology, Feb. 16-Feb. 22) mischaracterized Alex Lidow as "The father of the GaN revolution" rather than the most vocal champion of the GaN revolution.

PHOTOGRAPH BY JULIAN BERMAN FOR BLOOMBERG BUSINESSWEEK; NADELLA: BRIAN SMALE/MICROSOFT/GETTY IMAGES; TINDELL: HARRY GOULD HARVEY IV

Opening Remarks

Putting The Bad Guys On Ice

By William Browder

Asset freezes and travel bans are cost-effective tools for punishing human-rights abusers. Why not use them more often?

Have you ever found yourself walking down a street in New York, Miami, or London and seen someone in designer clothing and expensive jewelry, speaking with a Russian accent, and stepping into a $150,000 car? And have you ever wondered where all their money came from? It may surprise you that some are no more than midlevel Russian government officials whose salaries are less than $20,000 a year. It may also surprise you that some of these elegant-looking people made their money by falsely arresting, torturing, and even killing people.

Since December 2012 the U.S. has attempted to make their lives less comfortable. The Sergei Magnitsky Rule of Law Accountability Act, passed by overwhelming majorities in Congress and signed into law by President Obama, imposes visa sanctions and asset freezes on Russian human-rights abusers. Known as the Magnitsky Act, it represents the first time in almost 40 years that the U.S. has sanctioned Russia for its human-rights record. The European Parliament passed its own version of the Magnitsky Act last spring. Targeting the travel plans and bank accounts of dozens of allies of Russian President Vladimir Putin has unsettled Putin like few other Western policies have. After he assumed the presidency for a second time in 2012, Putin said one of his primary foreign policy objectives was to fight the sanctions. So far the U.S. has sanctioned 34 individuals and created panic among members of Putin's inner circle as they realize their money is no longer safe in the West.

This raises an obvious question: Why

ILLUSTRATION BY TIM LAHAN

shouldn't the U.S. do the same thing with an Uzbek, Venezuelan, or Burmese human-rights violator? Last month a bipartisan group of lawmakers, led in the Senate by Maryland Democrat Ben Cardin and Arizona Republican John McCain and in the House by Massachusetts Democrat Jim McGovern and New Jersey Republican Chris Smith, introduced the Global Magnitsky Human Rights Accountability Act, which would authorize the president to identify any foreign national "responsible for significant corruption, extrajudicial killings, torture, or other gross violations of internationally recognized human rights." Such people would be denied entry into the U.S. and barred from the U.S. financial system.

While American presidents possess the authority to enact sanctions against whatever countries they want, the truth is they rarely do out of fear of upsetting diplomatic relations. Sanctions that target individuals rather than entire countries would allow Congress to put pressure on the executive branch when it doesn't act. And these sanctions cost virtually nothing to implement. They're the equivalent of a next-generation cancer treatment that targets cancer cells instead of the whole patient. The Obama administration proved its confidence in the original targeted Magnitsky sanctions when it used them as the model for taking action against individuals involved in the Russian invasion of Crimea.

Given the moral and strategic arguments in favor of preventing human-rights abusers from traveling to or spending money in the West, it's somewhat remarkable that the U.S. and Europe took so long to act. The laws we do have are the direct result of the shocking way in which Sergei Magnitsky—my lawyer—died at the hands of the Russian police.

From 1996 until 2005, I ran the largest hedge fund advisory firm in Russia, Hermitage Capital Management. Doing business there was relatively straightforward until I started to publicly complain about corruption. When my complaints cut too close to senior members of Putin's regime, I was expelled from Russia and declared a threat to national security. Subsequently, my Moscow office was raided by the police. The documents they seized were used in an elaborate scheme to fraudulently obtain a $230 million tax rebate, the largest in Russian history.

It was then that I asked Sergei to investigate. He figured out which officials were involved and, believing the law would prevail, testified against them. In retaliation, he was arrested by the same officers he testified against. He was then tortured to get him to retract his testimony. He remained in custody for 358 days but didn't break. On Nov. 16, 2009, Russian authorities dispatched eight riot guards with rubber batons to beat him to death. He was 37 years old.

His murder was by far the most horrifying news I've ever received, and I have vowed to get justice for him ever since. It turned out that I wasn't the only one. Average Russians couldn't believe that a middle-class lawyer, who bought his coffee at Starbucks and went to work in his cubicle, could be plucked from his ordinary life and thrown into one of the worst dungeons in Moscow to be tortured and killed. Outraged people came forward with incriminating information about Sergei's persecutors, and we learned details of properties, bank accounts, car registrations, and travel records. The officials

Targeted sanctions are like next-generation cancer treatments that attack cells instead of the whole patient

involved had racked up tens of millions of dollars of unexplained wealth from the tax rebate fraud that Sergei had uncovered.

On May 6, 2010, I went before the Tom Lantos Human Rights Commission in Congress and told Sergei's story. When I finished, the chairman, Representative McGovern, said: "That is really tragic. … I think people who commit murder should not have the right to travel here and do business here. There should be a consequence." This was the genesis of the Magnitsky Act, which became law two-and-a-half years later.

Passing a global version of the Magnitsky Act that targets human-rights abusers regardless of nationality won't be automatic. Objectors argue that the sanctions will alienate important allies. That may be true, but there's no reason why the U.S. can't work with Azerbaijan on strategic issues while imposing sanctions on judges who convict journalists critical of the regime. The U.S. can also easily cooperate with the Egyptian government on fighting Islamic State while denying visas to the officers who fired on protesters in Tahrir Square. As in any human relationship, there will be moments when things are going well and moments when they're not. But to sacrifice human rights on the altar of "good relations" is both highly simplistic and morally outdated.

In the past, human-rights abusers operated with the comfort that they could commit atrocities without fear of reprisal. But if Global Magnitsky passes, some of these bad guys may call in sick on the day they're ordered to fire on crowds of peaceful demonstrators or to torture someone because of their religion. While travel and bank sanctions may seem like small prices to pay for destroying lives, they're a lot better than the total impunity that exists today.

We constantly read about disruptive technologies that upend traditional businesses. Magnitsky sanctions are the first major disruptive technology to transform human-rights advocacy. Having Sergei's name on this legislation is a fitting legacy for a man who made the ultimate sacrifice for his ideals. B

Browder is CEO of Hermitage Capital Management and author of Red Notice: A True Story of High Finance, Murder, and One Man's Fight for Justice.

To read Noah Smith on millennials' debt and William Pesek on emerging markets' appeal, go to

Bloomberggview.com

How Not to Fight Islamic State in Libya

The last thing any country should do is intervene militarily in North Africa

A video of the beheading of 21 Egyptian Christians by an Islamic State affiliate is sparking calls for outside military intervention in Libya. This is an imprudent response to the growing presence of Islamic State (also known by the acronym ISIS) and an unrealistic solution to Libya's ongoing chaos—and, in many ways, would make both problems worse.

The unrealism first. The United Nations Security Council includes Russia and China, which weren't fans of the U.S.-backed military intervention that helped topple Muammar Qaddafi in 2011 and are unlikely to favor any such involvement now. Even with the Arab world's most powerful military, Egypt lacks the ability to intervene decisively in Libya's vast spaces. Despite Islamic State's threats to Rome, Italy is playing down its initial offer to send 5,000 troops to Libya. Neither the European Union nor the North Atlantic Treaty Organization is mounting up. And the last thing President Obama wants is another ground war in the Middle East.

The case for intervention is even weaker. The sight of NATO troops on the shores of Tripoli would be welcomed by Islamic State as a recruiting bonanza that validates its claims to legitimacy as a defender of Islam against the "Crusaders." More important, any such force would inevitably become embroiled in Libya's civil war.

Too often, that conflict is simplistically depicted as a clash between Libya's "elected government" and "Islamists." In reality, it's the toxic efflorescence of multiple ethnic, regional, and tribal animosities that defy easy sorting into good and bad—the uncorked legacy of 42 years of Qaddafi's divide-and-rule tactics and suppression of civil liberties. The outbreak of a proxy war pitting Egypt and the United Arab Emirates against Sudan and Qatar hasn't helped. Notwithstanding the split between secularists and Islamists (who are themselves divided), the real issue in Libya is how to distribute political power (and in what form) and share the bounty that comes from Africa's largest proven oil reserves.

These are questions that Libyans must sort out for themselves, and not at the barrel of a gun. Recent UN-sponsored talks among the warring factions are making fragile, halting progress. They deserve encouragement and support to help build momentum for a national unity government, the best way to stop the violence and restart the delivery of humanitarian and civil assistance. In the meantime, the EU can help refugees with more robust naval patrols—its anemic program covers waters only as far as 30 miles off the Italian coast and threatens to turn the Mediterranean into what Pope Francis called a "vast cemetery." The U.S. and Europe can also do much more to help Libya's neighbors protect their borders and blunt Islamic State's expansion, providing them with intelligence, training, and weapons.

One glimmer of good news is that Islamic State's brutality in Libya is causing some Islamist militias and factions to turn against it. Islamic State thrives in the fissures of civil war. Healing such divisions offers the best hope of stopping its spread.

Keeping Thieves From Your Tax Returns

It doesn't require a criminal genius to commit this crime

Although tax day in the U.S. is two months away, a few enterprising businessmen have been busy filing returns to the Internal Revenue Service. Unfortunately, their business is fraud.

TurboTax, the popular online tax-filing service, briefly stopped submitting returns to state authorities in early February after a spike in suspicious filings. Taxpayers figured out there was a problem when they tried to file their returns and were informed they'd already done so—with someone else, presumably, receiving their refunds.

In broad terms, this scam is familiar. And it doesn't exactly require a criminal mastermind. With a name, birthdate, and Social Security number—which cost as little as $3 per record on the black market—thieves can fill out a phony tax form online and direct the refund to a post-office box or a burner debit card. All told, such fraud cost the IRS some $5.2 billion in 2013.

State tax authorities, which typically have less sophisticated defenses, now seem to be in the crosshairs of this scheme: The TurboTax incident affected 19. They might consider emulating an IRS pilot program that offers taxpayers more protection by requiring a PIN to submit returns. Brad Smith, chief executive officer of Intuit, the maker of TurboTax, argues for more information sharing among the IRS, state authorities, and businesses.

Congress could also help. For one thing, it could refrain from gutting the IRS's budget, which has declined by $1 billion since 2010 even as the agency confronted a "huge spike" in identity thefts. The IRS also needs more time. By law, it must send refunds within 45 days of the filing due date or pay interest to the taxpayer. Because it accepts individual returns beginning in January yet typically doesn't receive corresponding forms from employers until July, the agency usually can't compare the two for verification before sending out refunds. That gives criminals a crucial window. Requiring companies to file earlier—and more of them to file electronically—would mitigate this fraud. Likewise, shifting the filing season or simply allowing the IRS more time to issue returns would be helpful.

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Here's a glimpse at the top trending ideas that we're following right now…

Social Technology and eCommerce Continue to Amass Outsized Returns for Investors

Social networking technology success stories abound—Facebook, valued at over $210 billion…Twitter, valued at over $25 billion… and even 4-year-old Pinterest and its 70+ million users at $3.8 billion (yet the company has no revenues).

Despite billions of engaged users and impressive enterprise valuations, it's unclear where many social media leaders generate their revenue and how efficiently they monetize their platforms.

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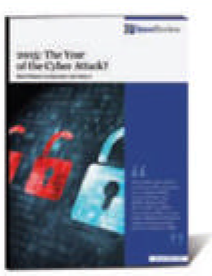
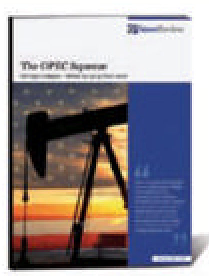


Cyber Security – A War with Gigantic Stakes

2015 could go down in history as the year of the cyber-criminals? The recent victim list now boasts the likes of Sony, Apple, eBay, JP Morgan, Home Depot, PlayStation Network, and Xbox Live.

Is this the new normal? That depends on who wins the battle for the cyber landscape – hackers, or the cyber-security guards at the gate tasked with thwarting the efforts of deviants.



Oil's Epic Implosion

There has been just one other time in history when the price of oil has crashed this far this fast. That was the spring of 2009, and if you bought the sell-off, you doubled your money in a year.

What are the primary causes for this meltdown and consequences? Is this a new 'pricing paradigm'? When will the bleeding stop, and at what price is it time to buy?

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Q: Can the World Handle a Fed Rate Rise?

☐ **No** ☐ **Não**

☐ **Non** ☐ **All of the above**

▶ **Higher U.S. rates will lure capital from markets around the globe**

▶ **"This could set off a chain of very rapid, volatile moves"**

The U.S. recovery is unlikely to falter if the Federal Reserve hikes its interest rate from near zero this year as widely expected. For much of the rest of the world, a rise in U.S. rates may be harder to handle.

Companies and governments outside the U.S. have dollar-denominated debts of $9 trillion, up 50 percent since the financial crisis, according to the Bank for International Settlements. Should the Fed raise interest rates for the first time since 2006, higher borrowing costs for foreign companies and governments, along with a stronger dollar, may increase financial debt burdens in an already weak global recovery. The dollar debt is just one example of how the Fed's raising rates would ripple through the world economy. From housing in Canada and Hong Kong to capital markets in Brazil and China, the question isn't whether there will be a spillover effect—it's how big it will be and where it will hit hardest.

In their periodic forecast, most Federal Reserve officials expect the Fed to raise the benchmark federal funds rate this year from a postwar low near zero, where it's been since December 2008. The probability of a Fed hike by June, based on trading in futures and options, was about 19 percent on Feb. 18, and the odds of an increase by September were 48 percent, Bloomberg data show.

The dollar, which has gained 12.3 percent since June, will be the main channel through which the rest of the world feels the effects of higher U.S. rates, according to Joseph Lupton, a senior global economist at

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JPMorgan Chase in New York. "For the developed economies like Europe and Japan, I think it's a positive–it's getting their currency down, and it's supporting their economies" by boosting exports, says Lupton, a former Fed economist. "For the emerging markets, it's a little bit different, because this could set off a chain of very rapid, volatile moves downward in currencies that have inflation implications, which are not as desirable."

On Feb. 6 a report showed U.S. payrolls rose more than expected in January, adding to speculation that the Fed will raise interest rates as early as June. Higher U.S. rates could draw money from emerging markets that have attracted foreign investment by issuing dollar bonds with relatively high yields, says Paul Sheard, chief global economist at Standard & Poor's in New York. "Emerging markets won't be the only game in town," he says. "You will have a U.S. economy that is growing more strongly and also offering rising rates and a return on capital that is starting to vie for new investment opportunities around the world."

A study from the Bank for International Settlements found that in the past six years, countries with higher rates than the U.S. increased their issuance of dollar-denominated bonds more than countries with lower rates. With American yields so low for most of the last decade, the differences in price provided a strong incentive to borrow in dollars instead of local currencies.

China accounts for the biggest share of borrowings, $1.1 trillion, while Brazilian institutions have more than $300 billion in dollar-denominated debt, according to the BIS. A stronger dollar means a company or government needs even more local currency to repay debt if it lacks revenue in dollars. In China much of that dollar debt is held by real estate and construction companies that don't generate sales in dollars.

Fed tightening could trigger big headaches for Chinese policymakers already battling capital outflows. The Chinese risk falling into a "circular trap," says Manik Narain, a currency strategist at UBS in London. The more the authorities lower rates to stimulate the Chinese economy, the more investors will sell Chinese debt to buy U.S. stocks and bonds. The Fed should consider the global impact of any interest rate decision, China Vice Finance Minister Zhu Guangyao said at a meeting in February of Group of 20 finance ministers and central bankers.

"The pool of U.S. dollar liquidity held outside the U.S. has started to shrink."
—*Hans Redeker, head of global currency strategy, Morgan Stanley*

The average yield of dollar-denominated bonds issued outside the U.S. is 4 percent, which suggests about $760 billion is required to pay it all, according to Hans Redeker, head of global currency strategy at Morgan Stanley in London. Besides having to pay more on their dollar debt because of the stronger greenback, foreign debtors need to find extra dollars to pay. "The pool of U.S. dollar liquidity held outside the U.S. has started to shrink," Redeker wrote in a Jan. 29 report. A U.S. current-account deficit of $100.3 billion, less than half what it was in 2006, means the U.S. is sending far fewer dollars overseas. At the same time, falling commodity prices have reduced the dollar incomes of commodity-exporting countries, which will have to eat into reserves to repay debts.

Developed markets aren't immune, especially those such as Australia and Canada, which rely heavily on exports of oil, iron ore, and other commodities. Prices of those goods are denominated in dollars and have fallen as the greenback has strengthened and demand has weakened. Bank of Canada Governor Stephen Poloz said in February that rising U.S. rates could force Canadian rates higher to compete for capital. An International Monetary Fund report in January said Canada's overvalued housing market may cool. The risk is that a drop in housing prices could hurt household wealth and reduce investment.

$760b

Total cost of servicing dollar debt outside the U.S.

Hong Kong, which has fixed its currency to the U.S. dollar since 1983, typically raises borrowing costs in tandem with the Fed. That means a rate hike in the U.S. will make mortgages costlier in Hong Kong. Property prices may fall as much as 20 percent this year, according to a December report from investment bank Bocom International Holdings.

The Fed's Open Market Committee in January added "international developments" to issues it takes into account to set policy, alongside domestic concerns such as inflation and employment. While the possible global impact is unlikely to stop the Fed from raising rates initially, the level of market turmoil may influence the pace and magnitude of subsequent moves, says Edwin Truman, a former head of the Fed's international finance division who's now a senior fellow at the Peterson Institute for International Economics in Washington. "Either it will be a non-event, which may lead to further small moves sooner rather than later, or if it's a big event, they will just sit on their hands," he says.
—*Matthew Boesler*

The bottom line Foreign governments and companies that borrowed $9 trillion in dollars face a squeeze when the Fed raises rates.

Property

An Irish Fight With the Banks Echoes the Past

▶ Anti-repossession activists revive a 19th century protest group

▶ "We are reflecting the anger that's out there about the level of debt"

The pace of home foreclosures in Ireland is picking up, and so is organized public resistance. On a snow-dusted January morning, about six members of an anti-repossession campaign called the National Citizens Movement sat around a blazing fire in a small house on the outskirts of Kells, 38 miles northeast of Dublin. For 72 hours, 60 activists working in shifts of six or more had helped ward off bank agents who came to retake the home from a couple with a 10-year-old daughter. The protesters kept a vigil, posting signs saying the house was private property. They also reported their action on social media, and in the end the bank didn't foreclose.

The protest is just one among many that activist groups have organized ▶

to help Irish in arrears on their mortgages keep their homes. "There's an alert system: You send a text, and 50 of our people show up," says Jerry Beades, a former real estate developer who's spent almost a decade in disputes with banks and financial regulators and helped found the National Irish Land League last year. "Our slogan is that we'll be there faster than an ambulance."

All these groups looked to the original Land League for inspiration. The league helped lay the groundwork for the struggle for independence from Britain in the 19th century. It started in 1879 to organize resistance to British landlords seeking to evict cottagers behind on their rent. The Land League teamed up with Irish members of the U.K. Parliament, and the result was a major legislative victory restricting the rights of landlords in Ireland.

The first Land League was subsumed by the larger independence movement by the mid-1880s, but its memory remains vivid in the minds of many Irish. "Irish culture is opposed to evictions and repossessions for good historical reasons, and that will not change," says Brian Lucey, a finance professor at Trinity College Dublin. "Culture will always trump strategy."

This time the activists are fighting the banks. "We have been creating mayhem, if by mayhem you mean keeping people in their homes," Beades says. "We are reflecting the anger that's out there about the level of debt that just can't be serviced."

"Irish culture is opposed to evictions and repossessions for good historical reasons, and that will not change"

About 117,000 Irish home-mortgage accounts are in arrears, according to central bank figures, and a legal aid group said in January that a "substantial spike" in repossessions may be on the way now that the government has closed a loophole in the law that had made foreclosures on certain mortgages next to impossible. Homeowners more than two years behind in their mortgages amount to about one-third of all delinquent accounts. Banks lodged 10,000 applications to foreclose on homes in the year through September, the legal rights group said in January, four times as many as in the previous year.

With an election next year, the issue is gaining political traction. Speaking before Parliament on Feb. 17, Prime Minister Enda Kenny urged the banks to compromise, saying, "We don't want people to end up in the street."

The activists often help one another. Byron Jenkins, who ran his own construction company, operates a counseling center in Dublin called the Hub, in a space Beades has provided, to offer guidance to those in financial distress. Jenkins owes about €750,000 ($852,000) on his house in County Kildare. After 15 court appearances, he's still fending off repossession. He says he would rather destroy his own home than hand it over to the banks. "All they'll get back is a pile of bricks," he says. "I've told them that."

Besides fighting repossessions, the activists are working with politicians to turn a spotlight on the industries that have grown up around the mortgage crisis, including hedge funds, private equity, auctioneers, and repo men. "Let people know how these guys are making their money," says Mattie McGrath, an independent member of the Irish Parliament involved with the Land League. "It's an underbelly that shouldn't be tolerated in a modern democracy. Let them beware that they'll be exposed. We'd be usurping the name of the Land League if we didn't stand up and defend our people."

Days before Christmas, police stopped about 60 Land League activists from reaching the home of an accountant in an affluent Dublin suburb. The group wanted to present the man, who it said worked for banks, with a wreath commemorating the suicides of people weighed down by debt.

Fears of such negative publicity are having an impact. Activists have disrupted real estate auctions, prompting some auctioneers to avoid selling property that's the subject of a dispute between banks and borrowers. Says

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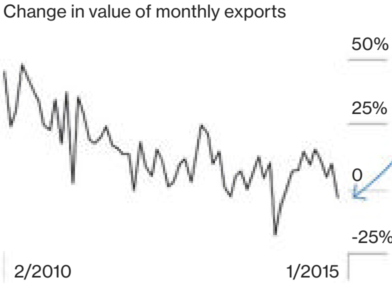
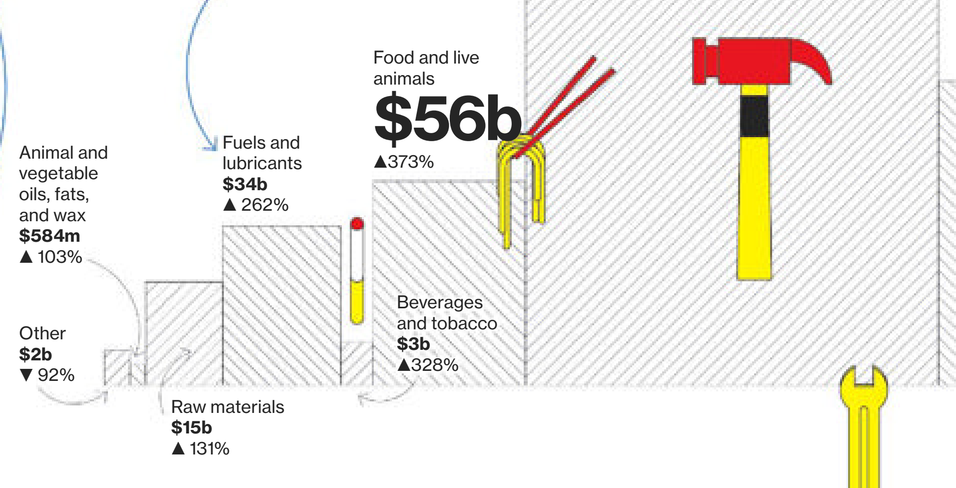
Trade What China Ships Abroad

China's export machine may not be growing at the clip it once was, but the slowdown comes after some incredible gains. Adjusting for inflation, the value of Chinese exports grew almost twentyfold from 1990 to 2013, to $2.2 trillion, the highest of any nation. Here's a look at the country's exports in 2013, in order of category growth since 1990, shortly before the economy began ramping up. —Mark Glassman

Chinese export growth slows

Change in value of monthly exports





the Land League's Beades of the hedge funds: "From what we hear, they have a problem. They can't get sheriffs to repossess properties, and they can't get auctioneers to sell them."
—Dara Doyle

The bottom line About 117,000 home mortgages in Ireland are in arrears, and there may be an increase in repossessions soon.

Budgets

Greeks Face a Wall Few Nations Surmount

▶ History suggests that Greece can't maintain austerity for long

▶ "Over years and decades, this goal is almost entirely illusory"

The Greek negotiators who went to Brussels in mid-February to argue for more lenient terms from their lenders were especially concerned about one thing in any new deal: the target for achieving and keeping a primary surplus. A measure of austerity, it's what a government earns in taxes each year, minus what it spends on everything except interest payments on its own debt. It's usually expressed as a share of gross domestic product.

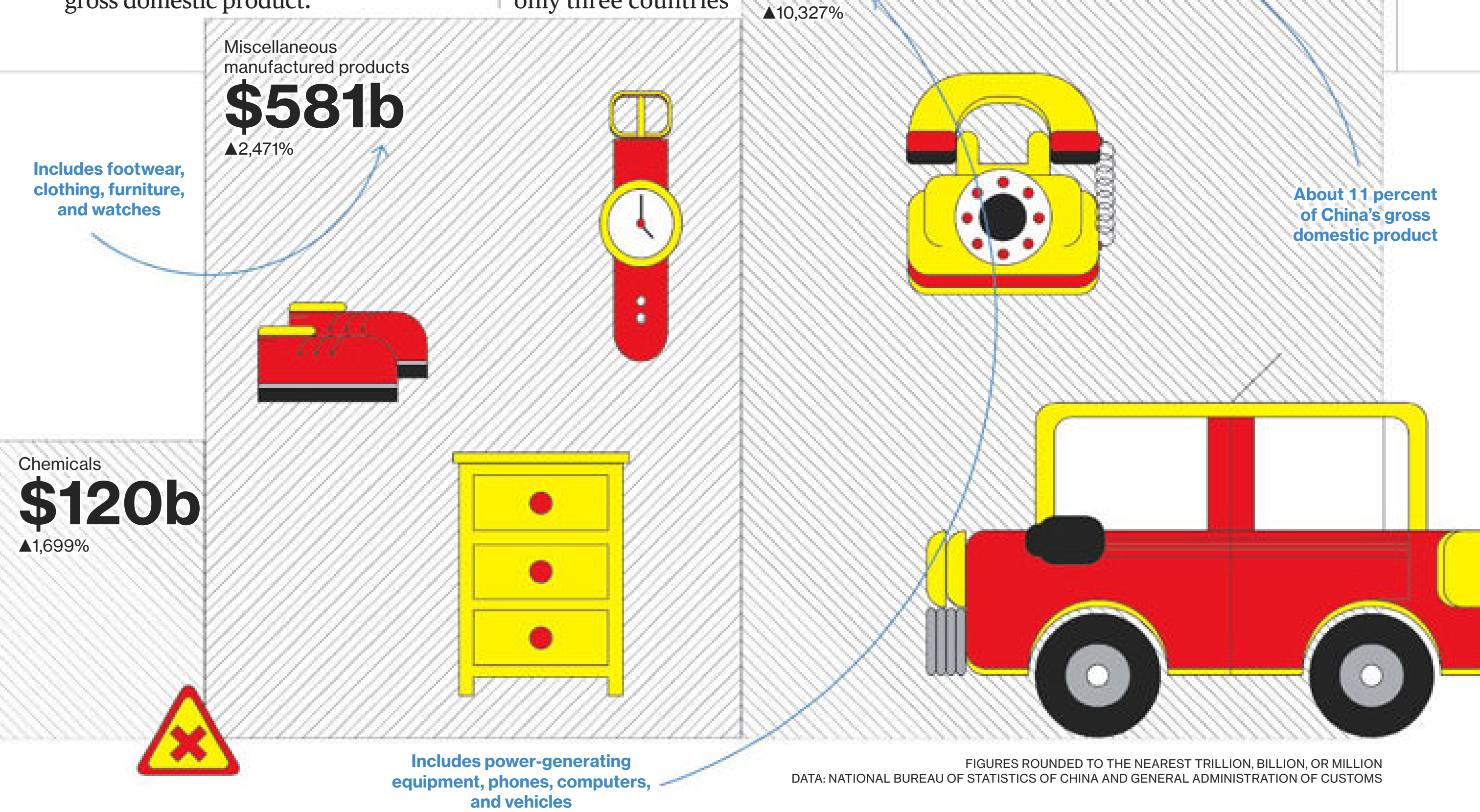
Under its four-year-old bailout program, Greece has dragged itself from a primary deficit of 10 percent to a 3 percent surplus, at great cost in jobs lost. The terms of the bailout demand that Greece reach a surplus of 4.5 percent and hold it for the length of the program. There's little reason to believe that's possible.

Since 1995 all the countries of the euro area reached an aggregate primary surplus of 3.6 percent only once, in 2000. That number is back below zero. (Even Germany, the Federal Republic of Austerity, reached its own peak of 3 percent only twice, in the last quarter of 2007 and the first of 2008.) In 2011 the Kiel Institute for the World Economy looked at the records of all Organisation for Economic Co-operation and Development countries from 1980 to 2010. It found that few countries could maintain a 3 percent surplus and almost none could keep a surplus above 5 percent. This suggested a limit to what countries can do, the report concluded. They could cross those thresholds briefly, but "over years and decades, this goal is almost entirely illusory."

Last year, Barry Eichengreen of the University of California at Berkeley and Ugo Panizza of the Graduate Institute in Geneva found that from 1974 to 2013, only three countries ran primary surpluses of 5 percent or more for a decade: Singapore is an island city-state run by a benevolent autocracy. Norway has oil wealth. For Belgium, the 1990s were a time of growth—Eichengreen and Panizza say countries that hold a primary surplus for many years are likely to be enjoying a good economy, which Greece doesn't have.

And 4.5 percent is not all that Greece's lenders are asking. In theory, the country will pay off its debt through thrift and economic growth until it can reduce its debt to the euro zone standard of 60 percent of GDP. To do that, says the International Monetary Fund, Greece must sustain a primary surplus of 7.2 percent from 2020 to 2030. Only Norway has maintained a surplus that high for that long.

The countries that pay off their debt, says Andrew Scott, "tend not to look like Greece." Scott, a professor at the London Business School, studies the history of government debt. The U.S. and U.K., he says, have survived high levels of borrowing without having to renegotiate with creditors, because both have a history of not defaulting. This allows them to issue long-term debt with low ▶



FIGURES ROUNDED TO THE NEAREST TRILLION, BILLION, OR MILLION
DATA: NATIONAL BUREAU OF STATISTICS OF CHINA AND GENERAL ADMINISTRATION OF CUSTOMS

◀ rates. Democracies, Scott says, find it hard to pay off large debts through a primary surplus alone without restructuring. "It's like a diet," he says. "You get through January and you're doing fine. February comes along and it looks like hard work."
—*Brendan Greeley*

The bottom line Greece has achieved a primary surplus of 3 percent, but pushing on to 4.5 percent is a long shot.

Agriculture

Uruguay Wants Industrial Scale Pot Farming

▶ The government plans to undercut the gangs by selling cheap weed

▶ "It's going to change the mindset of consumers worldwide"

Uruguayan President José "Pepe" Mujica in December 2013 made his country the first in the world to regulate cannabis for recreational, medical, and industrial uses. The Instituto de Regulación y Control del Cannabis (IRCCA) will in the next few weeks issue as many as five commercial growing licenses to supply recreational pot to authorized pharmacies.

"Uruguay is still the first and only national government to legalize not just medical marijuana but adult recreational marijuana," says John Walsh, who coordinates drug policy at the Washington Office on Latin America, a center for study of the region. Now, he says, it will be the first national government to license commercial pot farms for recreational marijuana. "Uruguay has guaranteed that it will have a major role" in the changing debate over legalizing drugs, he says.

The Uruguayan government expects to undercut the street price, typically $5 a gram, charged for the drug, part of which is controlled by the country's criminal gangs. The IRCCA has made it clear to bidders on the farm licenses that they can charge the pharmacies no more than 90¢ a gram. The pharmacies in turn will charge customers about $1 a gram, and the government will keep a registry of buyers, who can score as much as 40 grams a month. Tourists looking for a cheap and legal high may be out of luck; only Uruguayan residents will be able to buy marijuana at pharmacies.

Once the Uruguayan government issues the farming licenses, recreational pot could reach pharmacies in three to four months, says Alfredo Dupetit, a partner in **Lucus**, an investment firm based in Montevideo, Uruguay's capital. Dupetit, founder of a German retailer of cannabis products, set up Lucus with local partners to bid for a license. "If this works it's going to change the mindset of consumers worldwide who are going to see" they're paying too much for recreational pot, he says. Eleven investors are bidding for licenses to grow as much as 2 tons a year each on 1.5 hectares (3.7 acres) of government land. "It's one of the most exciting opportunities in the world right now," says Jordan Lewis, founder of Colorado marijuana producer and retailer **Silverpeak Apothecary**, which is bidding with some Uruguayan partners.

Mujica, whose ruling coalition, the Broad Front, also legalized gay marriage and abortion, steps down on March 1. It falls on his successor, Tabare Vazquez, also a member of the Broad Front, to implement Mujica's plan to issue farming licenses. Vazquez is skeptical that selling marijuana through the pharmacies is the best approach, but he's said he will uphold the law. The government says the 2013 law regulating recreational marijuana is already having an impact, with an estimated 2,000 cannabis users no longer buying on the black market because of the increasing numbers of home growers and pot clubs. Twenty clubs are at different stages of the authorization process.

Winners of the farming licenses probably face upfront costs of $1.5 million to $2 million each to meet requirements that include growing indoors or in greenhouses, says Fabrizio Giamberini, director of **Latin America Hemp Trading**, which has bid for a license. The IRCCA will charge $20,000 a year plus 10 percent of sales for each license. "We put together a business model that we feel is competitive," says Philippe Lucas, vice president of patient services at Canada's **Tilray**, a producer of medical marijuana that's bidding on a license in Uruguay.

License winners risk chasing a low-volume market of occasional users who don't consume enough pot to join a club or grow their own, says Juan Vaz, a spokesman for home-grower organization AECU. "Twenty percent of consumers account for 80 percent of marijuana consumption," Vaz says. Lucas disagrees: "In jurisdictions that have opened up to recreational cannabis, the biggest initial concern has been lack of product." —*Ken Parks*

The bottom line Eleven growers from Colorado to Germany have jumped at the chance to bid on pot farming licenses in Uruguay.

Trade

Woolly Mammoths Invade Hong Kong

▶ Some dealers disguise elephant ivory as tusks from the extinct beast

▶ "We really don't know if what they are selling is legal"

In the Sheung Wan district of Hong Kong, just across the street from a popular department store, Ming Hing Arts has a newly opened shop selling chopsticks, bracelets, Buddha statues, and other carvings made from ivory. Ming Hing offers something for every pocketbook: A carving of the Monkey King from the classic novel *Journey to the West* will set you back HK$2.88 million ($371,000), but you can buy a toothpick for HK$38.

Some of the ivory comes from elephants. You say you're worried about the dwindling population of the African herds? Not a problem: Ming Hing also offers items carved from the ivory of extinct woolly mammoths recovered from the Arctic tundra. In the shop window is a 3-foot-long mammoth tusk, yours for just HK$1.88 million.

As climate change melts the permafrost in the north, more mammoth tusks are available for Hong Kong's ivory dealers. China imported an average of less than 9 tons of mammoth ivory a year from Hong Kong in the early 2000s, but from 2007 to 2013 average annual imports increased to 31 tons. The value of mammoth ivory imports to Hong Kong averaged HK$1 million per ton in 2010. By last year it had gone to HK$2.2 million.

The growing popularity of mammoth tusks once offered the promise of guilt-free consumption of ivory. A global ban on the international trade of

FROM TOP: KRISTIAN SCHMIDT; NATACHA PISARENKO/AP PHOTO

Yao Ming at the David Sheldrick Wildlife Trust elephant orphanage in Kenya

elephant ivory took effect 25 years ago, although merchants could continue selling from their existing stockpiles. To an untrained eye, there's little difference between trinkets carved from elephant ivory and mammoth ivory. But activists worry that some merchants selling mammoth ivory are also disguising illegal sales of ivory taken from elephants killed in Africa by poachers. Some retailers "say they're selling mammoth ivory, but they're not; they're really selling elephant ivory," says Frank Pope, chief operations officer of Save the Elephants, a British charity with operations in Kenya. Ming Hing Arts declined to comment. The boutique is fully licensed to deal in elephant ivory.

Hong Kong, long a center of the global ivory trade, had 111.3 tons of elephant ivory licensed for commercial use in 2014, the latest figure available from the government's Agriculture, Fisheries and Conservation Department. That's down from 121.1 tons in 2010. Elizabeth Quat, a member of the Hong Kong legislature, says the city remains an "illegal trading hub" for elephant ivory sold by poachers. She wants a temporary ban on all sales of African ivory to give the government time to come up with a more effective way to police the trade. On Feb. 10, Quat held a press conference to call for a ban in China, too.

The growing presence of mammoth ivory makes the market even murkier, says Alex Hofford, campaign manager in Hong Kong for the anti-poaching group WildAid, which has recruited retired NBA star Yao Ming as one of its celebrity ambassadors on the mainland. Anyone purchasing elephant ivory in Hong Kong isn't allowed to take it across the border to China, but Hofford says mainland tourists will often buy ivory chopsticks as souvenirs. "The chopsticks are never made out of mammoth ivory," Hofford says. "They're always from elephants." He says some dealers will issue certificates falsely identifying the source of the ivory as mammoths. That's a plausible ploy because there are a lot of mammoth ivory objects for sale in Hong Kong shops.

About 90 percent of local retailers selling ivory don't have licenses to sell ivory on display, as required by the government, Quat says, so it's hard to know if their inventory is legitimate ivory from the pre-1990 supply or smuggled ivory from freshly killed elephants. "We really don't know if what they are selling is legal," says Quat, who worries about dealers who "mix up illegal ivory from the black market with their legal ivory."

There's already "a strict regulatory system to control the import, re-export, and domestic sale of ivory," Secretary for the Environment Wong Kam-sing told lawmakers on Feb. 11. "There is currently no plan to ban all ivory trade."

Quat also says the government needs to work harder to get the message out to tourists that there's a downside to buying ivory bric-a-brac for the relatives back home. "We have to educate people not to buy ivory at all," she says. "If there's no demand, there would be no killing." *—Bruce Einhorn, with Jasmine Wang*

The bottom line China imports from Hong Kong of mammoth tusks were less than 9 tons a year a decade ago, vs. almost 31 tons now.

Edited by Christopher Power
Bloomberg.com

20TH CENTURY FOX/PHOTOFEST

▶ VW and the UAW are odd bedfellows at a Southern U.S. plant

▶ "It's uncharted territory. I certainly think it has promise"

A year ago in Chattanooga, the United Auto Workers suffered a surprise setback. A vote at **Volkswagen**, the union's high-stakes stab at securing a rare foothold among foreign automakers in the South, ended in embarrassing defeat. Yet in January, VW and the UAW started holding thrice-monthly sit-downs anyway. Some labor leaders hope it will soon blossom into an unusual "minority union" arrangement, where a union represents and negotiates contracts for those employees who sign up, whether or not it has majority support.

"It's uncharted territory," says former National Labor Relations Board Chair Wilma Liebman, who since has done some legal work for the UAW. "I certainly think it has promise. Where it all ends up, I guess, remains to be seen."

The meetings with the UAW, part of a "Community Organization Engagement" policy rolled out by VW Chattanooga in late 2014, kicked off in January after VW certified that the UAW represents at least 45 percent of its hourly employees. (Groups certified to represent 15 percent or 30 percent of workers get regular meetings under the policy too, but less often.) They offer a forum for the UAW to raise workplace issues, ranging from who works the graveyard shift to how much work the company gives lower-paid temps.

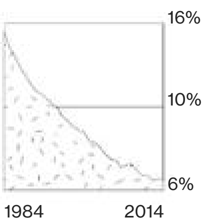
"It might not get everything we want accomplished," says VW team leader Dave Gleeson, a member of the UAW's elected bargaining committee. "But it's better than we used to have, where we'd tell our supervisor, maybe our HR rep, and it ends up in the circular file."

For a U.S. auto plant, the setup is highly unusual—but so is Volkswagen, which was created in 1937 by the German government. The law that privatized VW in 1960 also gave employee representatives some say about proposed factory closures, and effectively gave its home state of Lower Saxony veto power as the company's dominant shareholder at the time. Half the seats on Volkswagen's supervisory board are held by labor representatives.

At most VW plants worldwide, union contracts govern pay and benefits. Local "works councils"—elected bodies representing both blue-collar workers and management—also review company ▶

◀ financial information and shape policies on staffing and scheduling. Most plants also send delegates to a companywide works council, which helps make global decisions like where to expand production. "They really do see as their competitive advantage that they involve people in their management of their company," says Kristin Dziczek, who directs the Industry & Labor Group at the nonprofit Center for Automotive Research.

Private-Sector Union Membership



Both VW and the UAW have endorsed bringing the works council model to the U.S.—one of the only countries, along with China and Russia, whose VW plants lack one. A federal law banning "company-dominated" unions prevented a works council as long as the VW plant was nonunion, but some legal experts believe even a "minority" union may remove that obstacle.

In a November statement announcing the new "engagement policy," Sebastian Patta, the Chattanooga plant's executive vice president for HR, said, "Volkswagen has a long tradition of positive employee engagement at our plants around the world, and we welcome this in our company." The company declined to be interviewed.

Before Congress created the modern collective bargaining system by passing the National Labor Relations Act in 1935, U.S. workers often struck and protested to win contracts that covered only those employees who participated. Today, many workers who can't win or haven't won full unionization, from public employees banned from collective bargaining to striking **McDonald's** workers, still band together to pressure bosses. But for a company in the U.S. to formally bargain with a "members-only" union is almost unheard of.

"The technical and legal arrangement that UAW may have, or others may have, at VW, those may be not technically unionization," says Tennessee State Senator Bo Watson, a Republican and a critic of the new setup. "But to the average constituent of mine…they're concerned that the UAW is developing and negotiating a presence at VW, and they think that has the potential to have a negative effect on the economic development and business development in Southeast Tennessee."

> 'They really do see as their competitive advantage that they involve people in their management of their company.' —Kristin Dziczek

UAW membership, 1.5 million at its peak in 1979, now totals around 400,000. Unions' share of the U.S. private-sector workforce, once a third, is about a fifteenth. Organizers' prospects are even bleaker in the South, where local laws and culture make unions especially difficult to build. The lower-wage, union-scarce region has become a favored destination for companies looking to shift production or expand. That includes foreign automakers such as Japan's **Toyota Motor** and **Nissan Motor**, South Korea's **Hyundai Motor** and **Kia Motors**, and Germany's **BMW**—none of which have UAW contracts.

Against that backdrop, many labor activists see any kind of recognition as a chance to establish a beachhead in an otherwise union-free environment. A minority union, the theory goes, could grow into a majority one—just as the UAW did in the years after its 1930s sit-down strikes. "The sooner that the workers can get to organizing and demanding rights and having a voice in the workplace—even if that's not the majority of the workers—I think that's good," says labor lawyer Moshe Marvit, a fellow at the Century Foundation.

Other activists worry that embracing a form of unionization-lite could help supplant what strength organized labor has left. In Chattanooga, the UAW is already contending with a competing group, the American Council of Employees, many of whose leaders backed the No2UAW group that campaigned for "no" votes in last year's VW election. On Feb. 16, VW announced that ACE had secured the 15 percent support to merit its own meetings with VW management. "One of my biggest things is I don't really feel that we need collective bargaining," says former ACE Interim Treasurer Keri Menendez. "They treat us really well."

Few expect the Chattanooga model to upend traditional unions. "I think if the Volkswagen thing is a success, it will remain isolated," says historian Nelson Lichtenstein, who directs the Center for the Study of Work, Labor & Democracy at the University of California at Santa Barbara. "If it turns out to be highly useful to the right-wing groups, then I think this could be a precedent that other companies will try to impose on their weak unions that are just barely hanging on."

Pro-union workers in Chattanooga are split, too. "I would see a minority union as a step for other workers to see the benefits of being in a union," says Mike Cantrell, the local UAW president. Yet skeptics ask if the UAW's goals for minority unionism—spurring workers to get involved by delivering improvements, and enticing management to grant full recognition by showing it can be reasonable—are incompatible. "They're trying to seduce the company," says Byron Spencer, a pro-union VW employee who faults the UAW for staying away from grass-roots activism, like a petition protesting abuse of temps.

National UAW Secretary-Treasurer Gary Casteel says partnering with management isn't to be feared. "This whole notion that you have to be adversarial to achieve things for your employees kind of flies in the face of reason," he says. "Nobody has any more equity in that company than the employee that works for it." —*Josh Eidelson*

The bottom line The UAW lost a unionization election at VW's Tennessee plant in 2014. Yet it still meets thrice monthly with management.

Sports

The NBA's Hoop Dream: World Domination

▶ Betting on its big fan base in China, the league wants to beat soccer

▶ "Put the ball in the hands of people so that they start bouncing it"

The **National Basketball Association** All-Star Game in New York on Feb. 15 began with a jump ball between Pau Gasol of the Chicago Bulls and Marc Gasol of the Memphis Grizzlies. More than 7 million TV viewers in the U.S. watched *el salto* between the two brothers from Barcelona. It was the first time that two Europeans made the starting lineups for the NBA's midseason exhibition. If league officials have their way it won't be the last, as the NBA pursues a global campaign to overtake soccer as the world's most popular sport. "Our goal is to be the No. 1 sport in the world," says Deputy Commissioner Mark Tatum. "It's not in the immediate future, but it's attainable."

FROM TOP: MIKE YOUNG/GETTY IMAGES; COURTESY NBA (2); DATA: BUREAU OF LABOR STATISTICS

The Global Playbook

Fashion
The league has licensed its team logos to South Korean apparel maker **MK Trend** and given the company license to tinker. NBA Deputy Commissioner Tatum: "They take a New York Knicks T-shirt and they make it purple and gold."

TV
This season the NBA established a Sunday afternoon time slot for games in the U.S. to create prime-time viewing opportunities in Europe.

Expansion
Two years ago then-NBA Commissioner David Stern said the league would likely have a team in Europe within 20 years. Officials now envision as many as five teams someday.

Retail
In December the NBA opened a store in Manila, its largest outside the U.S. The league says fans in **the Philippines** are the world's most avid.

Exhibition
In August the league will send a group of players to South Africa for the first NBA-sanctioned game on the continent.

Video Games
Japanese mobile video game developers **Marvelous Entertainment** and D2C have created NBA versions of their games. "Video gaming is incredibly popular," says Scott Levy, director of the NBA in Asia and India.

That's why the NBA put on a full-court press in New York to wow the foreign media and fans during All-Star weekend. On the Friday before the big game, the league hosted a "Rising Stars Challenge" game with the best young NBA players from around the world pitted against the best from the U.S. Off the court, the NBA handed out credentials to a record 534 members of the international media, more than double last year's All-Star total in New Orleans.

On Thursday afternoon, Tatum glad-handed a group of reporters from Indonesia, Thailand, Singapore, Korea, Australia, and India in a 19th-floor conference room at the league's headquarters in Manhattan. "How special is that?" he said of the Gasol brothers, who were, he noted, just two of 101 foreign-born players from 37 countries on NBA rosters. Four floors below, Benjamin Morel, the league's managing director for Europe, the Middle East, and Africa, spoke to another roomful of reporters, while on the 14th floor, Philippe Moggio, senior vice president for Latin America, fielded questions in English and Spanish. The message was the same on every floor: "We need to put the ball in the hands of people so that they start bouncing it," said Morel, "rather than kicking it."

That will be an uphill battle. Soccer is universally acknowledged as the world's No. 1 sport, with almost half the globe's population tuning in for part of the FIFA World Cup every four years. Even stateside, in a 2014 survey by Harris Poll the NBA sat fifth, after the **National Football League**, **Major League Baseball**, college football, and auto racing among sports ranked as favorites by adult fans.

"I have enormous respect for the NBA," says Neal Pilson, former head of CBS Sports and president of Pilson Communications. "But it's going to be very difficult for them to supplant European football, which is as ingrained in many of the international markets as the NFL is here." The more likely scenario, Pilson says, is that basketball wins the international race among American sports.

Basketball has at least an outside shot because it rules China and its population of 1.4 billion. The NBA has been aggressively cultivating fans across the mainland since 1979, when the Washington Bullets played the league's first exhibition games in Beijing and Shanghai. Today, 300 million people in China play basketball, according to the Chinese Basketball Association, which is almost the entire population of the U.S. About 600 million people watched at least a minute of an NBA game on state-run broadcaster **CCTV** last year, with an average of about 5 million viewers per game. In January the league sold a five-year package of digital video rights to Chinese Internet provider **Tencent Holdings** for $700 million.

"They're already getting about a million live viewers per game on their platform," says NBA China Chief Executive Officer David Shoemaker, who spent All-Star weekend shepherding 150 executives from the league's commercial partners in China, including CCTV, Tencent, and **Anta Sports Products**. "We think we can multiply that by a lot."

Revenue from China, now in the hundreds of millions of dollars annually, according to the league, has grown more than 10 percent a year. "It's just a matter of time," says Tatum, "before our revenues outside the U.S. outpace our revenues inside." —*Ira Boudway*

The bottom line About 300 million Chinese play basketball. The NBA hopes to use that fan base to someday eclipse soccer's popularity.

The Score

NBA international merchandise sales by region

Greater China **40%**

Kobe Bryant's Los Angeles Lakers jersey is the top seller in China

Europe, Middle East, and Africa **33%**

Other Asia **18%**

Canada **6%**

Latin America **3%**

In November, Mexico City hosted its first regular-season NBA game since 1997

DATA: NATIONAL BASKETBALL ASSOCIATION

Museums

The Nascar Hall of Fame Has Been Anything But

▶ The Charlotte museum, like the sport, has disappointing attendance

▶ "The city invested taxpayer money based on faulty assumptions"

Charlotte, where almost 30,000 people make a living off **Nascar** auto races, would seem the perfect place for a museum honoring driving legends such as Richard Petty and Dale Earnhardt. As it turns out, the $192 million Nascar Hall of Fame is drawing fewer than ▶

◀ half the visitors forecast when it opened in 2010, leading government officials in January to use $5 million of public funds to pay off bank loans. “The city invested taxpayer money based on faulty assumptions,” says Kenny Smith, a city council member.

The city, which owns the museum, sold $137 million of municipal debt in 2009 as part of the financing. Local officials predicted it would draw 800,000 people its first year and 400,000 annually thereafter, says Laura White, a spokeswoman for the Charlotte Regional Visitors Authority. Instead, the average has been about 170,000.

“It was going to be a huge economic development project that would pay for itself,” says Don Reid, a former city council member who runs a marketing firm. “It sounded good because Nascar is a big ... industry, but it’s a colossal failure that has harmed the taxpayers.” Ron Kimble, the deputy city manager who oversees economic development, disagrees. “It was not working as envisioned, but that doesn’t mean that it wasn’t a success,” he says, adding that it helps draw convention business.

Nascar is sewn into Charlotte’s DNA. Besides having 90 percent of the country’s Nascar teams based within 50 miles, the area hosts three major races a year, houses some Nascar offices, and is home to track operator **Speedway Motorsports**. Attendance at Nascar races has declined in recent years, and sponsorship growth has slowed. Still, Nascar pumps $4 billion a year into the local economy, says John Connaughton, an economics professor at University of North Carolina in Charlotte.

Exhibits at the museum, where the cheapest ticket for adult nonmembers is about $20, include the Glory Road—as many as 18 historic race vehicles along a banked ramp. But on a recent afternoon, cars in the Glory Road display outnumbered viewers 3 to 1. First-time visitor Jay Turner, 65, says the $20 price may be keeping people away. “For some bringing the family, $100 might be cost-prohibitive,” he says.


Nascar Hall of Fame

The museum hasn’t generated enough revenue to repay a separate $14.1 million bank loan secured by sponsorships and donations, or about $3 million of royalties to Nascar. That led the hall to restructure its financing last month. The banks will get $5 million from surplus lodging tax revenue in exchange for forgiving about $17.8 million of interest and principal, says Kimble. Nascar will give up royalties it hasn’t collected and won’t ask for payments until museum revenue reaches $10 million. It was $6 million in fiscal 2014. —*Darrell Preston*

The bottom line Charlotte officials expected 400,000 visitors a year to their Nascar museum. They’ve averaged less than half that.

Restaurants

Pizza Hut Wants to Roll Its Dough in Africa

▶ It’s back on the continent, where chicken is the top fast food

▶ “We ... can’t be the cheapest, so we got to be the best”

Pizza Hut knows a few things about fast expansion in emerging markets. In less than 25 years, the chain has added more than 1,300 restaurants across China. But Randall Blackford, the general manager of Pizza Hut’s operations in Africa, says the restaurant operator is taking its time expanding on the continent. In Africa, “we are a small company right now and will stay small for some time,” he says, eating pizza at one of his restaurants in Soweto township in Johannesburg. “It gives us flexibility to respond to local tastes, to engage more. We can’t be first, can’t be the cheapest, so we got to be the best.”

Blackford has reason to be cautious: The world’s largest pizza purveyor, a unit of Louisville-based **Yum! Brands**, failed in sub-Saharan Africa seven years ago, after consumers were cool to its prices and dine-in model. This time around, Pizza Hut is targeting takeout and delivery service. It will limit drop-off distances to a few miles, which means eventually it will have smaller stores in lots of neighborhoods. From its current eight stores in South Africa and Zambia, it aims to have 200 stores across the continent in three years.

While fast-food purchases in South Africa are growing, with about 34.8 million people expected to buy meals from such restaurants by 2017, up from 31 million now, much of that nation’s fast-food industry is homegrown, according to Euromonitor International analyst Elizabeth Friend. In countries such as Ghana, Kenya, and Nigeria, there’s less competition than in South Africa. So while supply chains are less reliable, those newer markets offer foreign restaurant players good growth opportunities, “at least for those chains that can survive until that investment starts to pay off,” Friend says.

Almost half of Africa’s fast-food restaurants are focused on chicken, then comes burgers. Pizza is a distant third, accounting for about 5 percent of total spending. One reason: the more moderate cost and wider availability of poultry supplies. Some Pizza Hut toppings, such as air-dried pepperoni, have to be imported. That affects customers’ checks. The Streetwise 5 meal from Yum’s **KFC**, which includes a large order of fries and five pieces of chicken, costs $5.50 in South Africa, while a fully loaded large Pizza Hut pizza approaches $8. In Zambia, the same pie costs about $10. “The pizza outlets are going to have to focus on pricing, bringing it more in line with what chicken costs,” says Wayne McCurrie, a money manager at Momentum Asset Management in Johannesburg.

Domino’s Pizza also has African dreams. It already has 19 outlets in

three sub-Saharan countries, and last year it signed a 30-year agreement with Johannesburg-based **Taste Holdings** to develop the brand in seven African nations. Taste's existing Scooters and St. Elmo's pizza stores will be converted to Domino's outlets. Domino's plans 200 stores across Southern Africa within five years.

Not only is Pizza Hut focusing on takeout and delivery this time around, it's also trying to resonate with locals through signage and napkins using slang such as "laaik it local" (like it local) and with toppings such as boerewors, a spicy South African beef sausage. Pizza Hut does benefit from being able to combine some back-office functions with the KFC chain. Even so, KFC doesn't use its vegetable toppings, dough, and cheese, so the pizza chain has had to organize much of its supply chain on its own.

Debonairs Pizza, Africa's biggest pizza chain with about 500 restaurants in more than a dozen African nations, is operated by South Africa's **Famous Brands,** which owns pizza and burger chains. It teamed with supermarket operator **Shoprite Holdings** to open its first restaurant in Angola in February. The companies are in talks to expand to Nigeria and Zambia.

"South Africans are extremely loyal to brands that are homegrown," says Famous Brands Chief Executive Officer Kevin Hedderwick. "The fact that you come with global pedigree is not, on its own, a reason for consumers to vote for you with their wallets and their throats, especially in the pizza category."

To offer more affordable items, Pizza Hut has added fries to its menu in South Africa. Chicken wings and breadsticks are also options. The chain may still have a hard sell changing local tastes. "Not bad," says Choombe Kalonga, 29, as he and two friends finish a pie at a new Pizza Hut in Lusaka, Zambia, recently. "But nothing beats traditional chicken. We grew up on that." *—Janice Kew and Chris Spillane*

The bottom line Pizza Hut, which operates eight outlets in Sub-Saharan Africa, wants to have 200 stores there within three years.

Edited by James E. Ellis
Bloomberg.com

CLOCKWISE FROM TOP: COURTESY PIZZA HUT; GUSTAVO CABALLERO/GETTY IMAGES; JARED C. TILTON/NASCAR/GETTY IMAGES

Briefs

By Kyle Stock

Less Screen Time

Sony is weighing possible sales of its TV and smartphone businesses, while it focuses on making camera sensors, PlayStation video games, and movies. The company expects to post its sixth loss in seven years this spring. A corporate restructuring could boost operating profit 25-fold within three years, based on company projections. Recently, Sony sold its personal-computer business and scrapped its streaming music platform in favor of a partnership with *Spotify*. *Apple* has a few hundred employees designing an electric vehicle that looks like a minivan, according to people familiar with the matter. The company's expertise with gadgets such as iPhones and iPads has made it an expert in batteries, and Apple is eager to find places to invest its $178 billion in cash. Swiss food giant *Nestlé* said it would remove artificial ingredients from all of its chocolate products in the U.S., including Baby Ruth, Butterfinger, and Crunch candy bars, replacing them with such things as coconut and natural vanilla. Nestlé already made similar changes in the U.K. *Transocean* CEO Steven Newman stepped down and the company slashed its dividend, as the offshore drilling giant continued to struggle with plummeting oil prices. Newman steered the company through the 2010 Deepwater Horizon spill in the Gulf of Mexico, which happened on a Transocean rig. *Snapchat*, a mobile service for sending photos and videos that vanish, said that it's worth up to $19 billion as it hunted for another round of funding. At that level, the startup would be the third-most-valuable venture-backed company in the world behind Uber and Chinese smartphone maker Xiaomi.

Rolls-Royce, a BMW brand, said it would make a vehicle capable of handling "any terrain." **Bentley**, however, will likely beat it to the luxe SUV market with its Bentayga model, expected later this year.

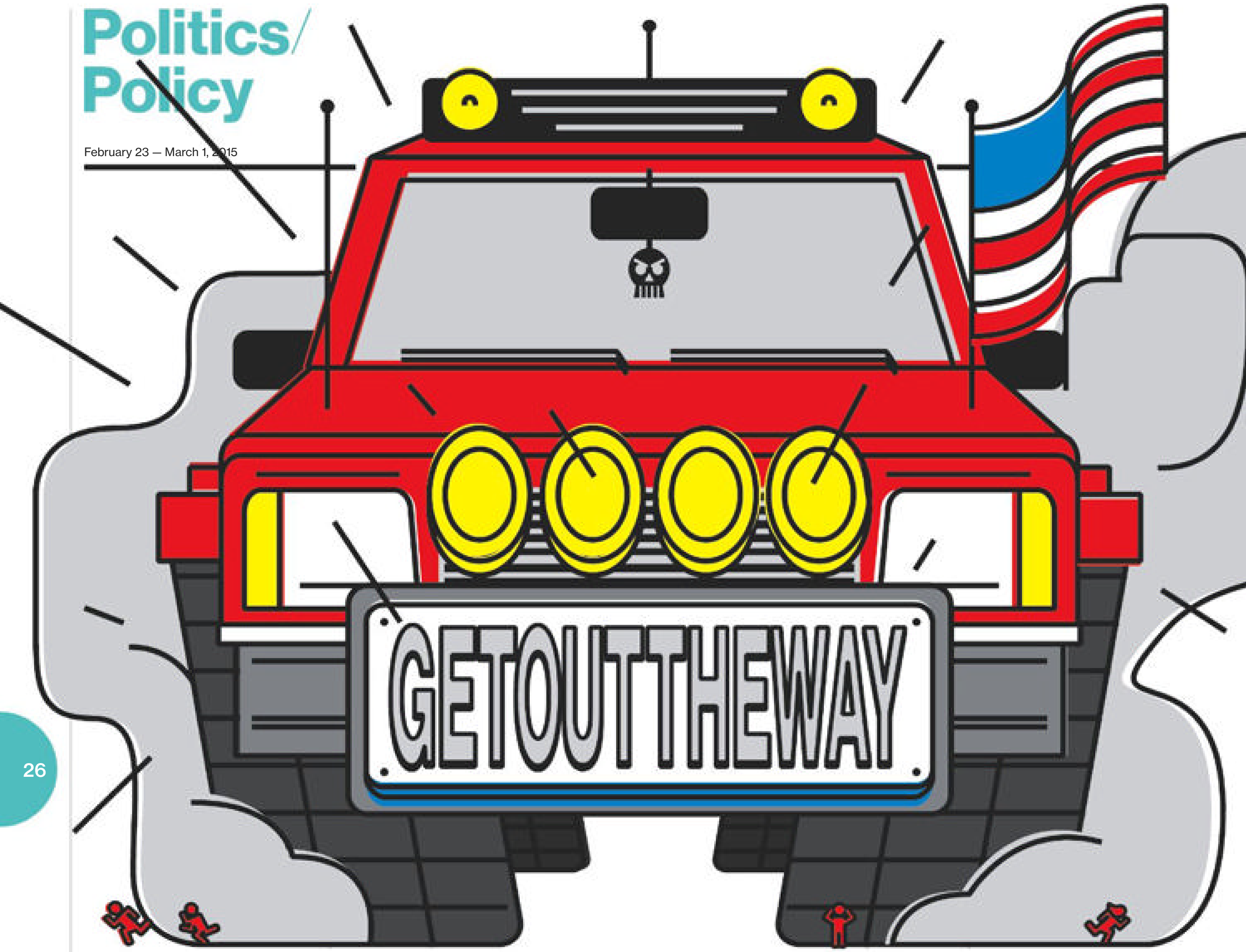
$23.4k

The estimated fortune of Michele Ferrero, scion of Nutella maker **Ferrero Group**, who died on Feb. 14. He took over the family business in 1949 and built it into the world's fourth-largest confectionary company.

CEO Wisdom

"The battle will be won on the smartphone."

—**Mark Thompson**, CEO, the New York Times, discussing the challenge for media companies shifting away from print



▶ **A change in fuel standards has led to even heavier, more dangerous pickups**

▶ **Automakers have an incentive to "get everybody to buy trucks"**

Last July 7 a Nissan Titan pickup truck traveling on a state highway south of Tivoli, Texas, collided head-on with a Honda Civic. All the occupants in both vehicles were wearing seat belts, police said. But the pickup truck, weighing about 5,000 pounds, had physics on its side. The five occupants of the Titan escaped with injuries, but all four occupants of the Civic, which weighs about 2,700 pounds, were killed.

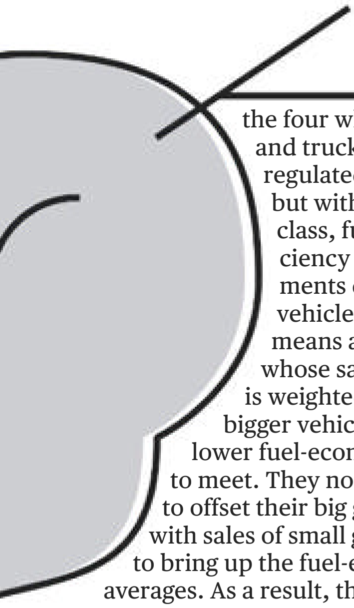
Drivers of passenger cars had nothing in particular to fear from pickup trucks back in 1975, the year Congress passed the Corporate Average Fuel Economy (CAFE) law, which imposed mandatory mileage requirements on carmakers. Then the two classes of vehicles weighed about the same. As recently as 2000, the weight gap was less than 1,000 pounds. By the 2014 model year, however, the difference had grown to almost 2,000 pounds, according to an October report by the Environmental Protection Agency. The average weight of pickups has risen about 26 percent since 2000 even as the other two types of vehicles classified as light trucks—sport-utility vehicles and minivans—have stayed basically the same weight, the EPA says.

What explains the rise of the XXL pickup? Customer demand, for one. You can't carry a load of plywood or tow a motor home with a Ford Focus. And the comforts of tricked-out models such as the Ford F-150 King Ranch, with heated and cooled front seats, are unbeatable. Recently, cheap fuel has also helped prompt consumers to buy bigger.

For the past few years, a quirk in federal policy has made it easy for Americans to keep supersizing their rides: Under CAFE rules that took effect in 2011, bigger cars have lower mileage requirements. For the first 30 or so years CAFE was on the books, the rules divided the market into cars and light trucks but held all vehicles in each class to the same fuel-efficiency standard. Automakers that sold only gas guzzlers, whether big cars or big trucks, had to pay penalties. That changed with a reconception of CAFE that began under President George W. Bush in 2008 and culminated in rules the Obama administration promulgated for 2011 and beyond.

Now, automakers' mileage targets vary depending on the "footprints" of the vehicles they sell—the area between

PHOTO ILLUSTRATION BY 731



the four wheels. Cars and trucks are still regulated separately, but within each class, fuel efficiency requirements drop as vehicles grow. That means automakers whose sales mix is weighted toward bigger vehicles have lower fuel-economy targets to meet. They no longer have to offset their big gas guzzlers with sales of small gas sippers to bring up the fuel-economy averages. As a result, there's nothing anymore to hold them back from selling lots of big trucks, which drive profits. **Ford** gets half its U.S. profit from large pickups, and **General Motors** gets about 35 percent, says Barclays Capital analyst Brian Johnson.

Kate Whitefoot, a researcher at the National Academy of Engineering, came to believe that the new CAFE rules were tilted in favor of large pickup trucks while working on her doctorate in design science at the University of Michigan. In a 2011 article in the journal *Energy Policy*, Whitefoot and a mechanical engineering professor, Steven Skerlos, concluded on the basis of computer simulations that it would be cheaper to meet the new standards for big pickups than for small pickups, SUVs, or cars. "The goal of the policy was that vehicle size wouldn't change at all," Whitefoot says. Instead, "We're seeing that it clearly is going up for trucks."

Barbara Kiss, an engineer at GM who's manager of vehicle efficiency and energy policy, says "the notion that it's easier" to achieve the fuel-economy standards for bigger vehicles "is simply not true." Trucks, she says, have tough performance demands such as towing power that complicate the effort to improve their fuel efficiency. But the high profits that carmakers earn on trucks show it's still sweet to be a maker of pickups and SUVs. Kevin Tynan, an auto analyst for Bloomberg Intelligence, says each sale of a well-equipped pickup truck contributes "easily" $10,000 to automakers' operating profits. Sandy Munro, chief executive officer of Munro & Associates, a consulting company in Auburn Hills, Mich., that specializes in cost studies, says, "I can't begin to tell you how much simpler it is to make a truck vs. a car. If I was a head guy at **Chrysler** or Ford or whoever, my focus would be: How do I get everybody to buy trucks, where I can make a tremendous amount of money?"

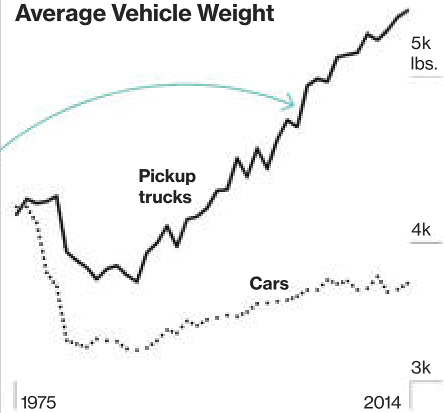
Pickups are more dangerous than cars and more common on the road than other hazardous vehicles, such as tractor-trailers. A study by economists at the University of California at Berkeley found that adding 1,000 pounds to the weight of a vehicle increases by 46 percent the risk of a fatality in the vehicle it hits. The Insurance Institute for Highway Safety concluded in 2012 that car passengers are still more likely to die when hit by a pickup than when hit by an SUV or another car despite design changes that make pickups less likely to ride up on cars when they collide.

The change in CAFE regulations was good for safety in one respect: Automakers have no reason anymore to make small cars even smaller (and more dangerous) to offset sales of their big ones. If they do, they'll just find themselves having to meet tougher standards. And the rules encourage weight reductions in trucks of any given footprint. On net, though, the National Highway Traffic Safety Administration estimates that the new rules for model years 2017 to 2025 will cause crash fatalities to rise by around 100 for occupants of cars and fall by a little more than 100 for occupants of light trucks over the vehicles' lifetimes. (Those aren't huge shifts: Traffic accidents kill about 30,000 people a year.)

The NHTSA says it will look at the rise of big pickup trucks as part of a review of the CAFE rules that will apply to model years 2022 to 2025. That review doesn't have to be finished until 2018, but the skirmishing has already begun. *—Peter Coy*

The bottom line Fuel-efficiency standards free automakers to sell bigger pickups that are likelier to cause fatalities in car crashes.

Average Vehicle Weight



The weight gap between cars and pickups has grown to almost 2,000 pounds

DATA: U.S. ENVIRONMENTAL PROTECTION AGENCY

Second Amendment

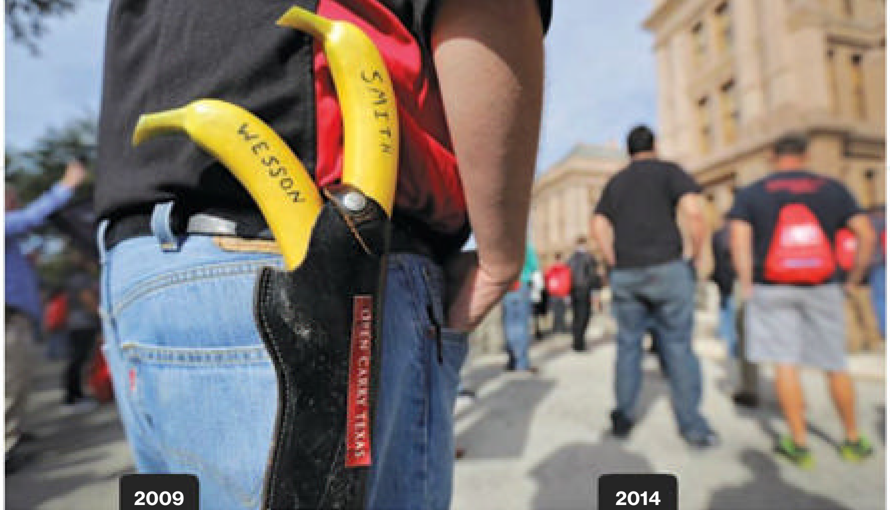
An Open War Over Gun Rights Erupts in Texas

- ▶ Activists push state legislators to loosen laws
- ▶ Gun interests "want to make this a litmus test" for Republicans

When Texas lawmakers arrived in Austin for the opening of the biennial legislative session in January, they were confronted by pro-Second Amendment activists carrying AK-47s and waving "Come and Take It" banners emblazoned with guns. The signs were a reference to the Lone Star State's restrictive laws on carrying weapons. It's one of only six that prohibit residents from carrying handguns openly in public.

Members of Open Carry Tarrant County, a group participating in the rally, entered the Capitol and barged into the office of Representative Alfonso "Poncho" Nevárez, a Democrat from Eagle Pass, on the Mexican border northwest of Laredo. When Nevárez said he wouldn't support less restrictive laws, they called him a tyrant. The group's leader posted a video of the encounter on Facebook. The next day, the House of Representatives voted to make it cheaper for legislators to have panic buttons installed in their offices to alert Capitol security to unwelcome visitors. There's "a level of aggression we're not used to seeing," says Representative Trey Martinez Fischer, a Democrat ▶

Any Weapon Anywhere
Texas is one of six states that prohibits the open carrying of handguns. Permits for concealed weapons have gone up sharply.



A Jan. 26 protest in Austin supporting open carry legislation in Texas

2004	2009	2014
54,065	138,768	246,326

DATA: LAW CENTER TO PREVENT GUN VIOLENCE; TEXAS DEPARTMENT OF PUBLIC SAFETY

◀ from San Antonio. "For lawmakers this has been quite an eye-opener."

Gun rights advocates say they're just trying to make sure the Republican-led legislature takes action this year. An open carry bill died in 2013 without reaching the floor. "There was a lot of anger that came out of the 2013 legislative session," says CJ Grisham, the founder of Open Carry Texas, one of the groups leading the lobbying push for looser gun laws. "We expected a majority Republican legislature to respect and vote for our rights to be reinstated, but they didn't do that."

Activists such as Grisham succeeded in unseating half a dozen Republican incumbents in elections last fall, replacing them with politicians who pledged to support open carry laws. "The right wing of the Republican Party–in this case the gun interests–want to make this a litmus test for whether you're a real Republican," says Cal Jillson, a professor of political science at Southern Methodist University in Dallas.

On Feb. 12 a state senate committee voted in favor of allowing licensed gun owners to carry their weapons in plain sight. Another bill would permit concealed weapons on college campuses. The hearing lasted eight hours and included testimony from police chiefs, who said looser gun laws would make it harder for cops to keep the public safe. "You've got groups that believe they have a right to carry any weapon, anytime, anyhow, and that the state has no authority to prevent them," says Kevin Lawrence, executive director of the Texas Municipal Police Association.

"The purpose of the government is to protect our God-given liberties," says Don Huffines, a freshman Republican state senator from Dallas. "It's not up to the government to tell us how to carry our guns." Nevárez, the Democrat who clashed with activists in his office in January, says his encounter strengthened his resolve to vote against relaxing the laws when the issue comes to the full senate. "Before that confrontation, I would have voted for some version of open carry," says Nevárez, who has a gun range on his West Texas ranch. "Now I won't. I don't believe in rewarding bad behavior." —*Lauren Etter*

The bottom line Republican activists who want the right to carry guns in public are pressuring legislators to get their way in Texas.

Law

An Appeal for Juvenile Lifers Falls Apart

▶ **The Supreme Court won't revisit sentences for children this term**

▶ **"My lawyer ... said, 'You can sign this agreement and leave'"**

Until recently, the U.S. was the only developed country in the world in which people under 18 could be given a mandatory sentence of life without parole. In 2012 the Supreme Court changed that, ruling in a case known as *Miller v. Alabama* that it was unconstitutional. But in fixing one problem, the justices created another: how to deal with the estimated 1,500 people already serving life sentences for crimes they committed as children.

Some states have offered such inmates new sentencing hearings. Courts in Louisiana, Michigan, Minnesota, and Pennsylvania have decided *Miller* applies only to new cases. George Toca, a 48-year-old inmate at Louisiana's Angola state lockup, sued Louisiana for his release. In 1984, when he was 17, Toca was charged with accidentally shooting and killing his best friend, Eric Batiste, during a failed carjacking. Toca was convicted of second-degree murder in 1985 and given an automatic sentence of life without parole. In December the Supreme Court agreed to hear his appeal.

Shortly thereafter, Toca was approached by Orleans Parish District Attorney Leon Cannizzaro with a tempting offer. Toca has long maintained his innocence, but the DA's office has repeatedly, and successfully, opposed Toca's requests for a new trial. Cannizzaro told Toca that if he signed a plea agreement admitting to armed robbery, prosecutors would drop the original murder conviction, and Toca would be paroled immediately. Toca took the deal, and on Jan. 29 he was released.

The Supreme Court then dropped Toca's appeal. It was a victory for opponents of the *Miller* decision, who feared Toca's case could set a precedent that would let violent criminals go free. Toca is a sympathetic plaintiff, in part because Batiste's family has advocated on his behalf, saying they believe another man shot Batiste. "We'd prefer to have a case that's more representative of some of the horrific crimes juveniles commit," says Bobbi Jamriska, Pennsylvania director of the National Organization of Victims of Juvenile Murderers, a nonprofit group founded in 2006 to advocate for tough

FROM LEFT: ERIC GAY/AP PHOTO; PHOTO ILLUSTRATION BY 731; STETHOSCOPE: ALAMY; USB: GETTY IMAGES

juvenile sentencing laws. Jamriska cites the 2003 murder of Danni Romig, a 12-year-old girl from Allentown, Pa., who was beaten, raped, and murdered by a 17-year-old boy. "You need the option of life without parole," Jamriska says. "You can't get rid of that."

Toca's lawyer, Emily Maw, who represented him in his *Miller* appeal as well as his appeals for a new trial, says it made sense for him to accept the DA's offer. "The system did not work for George Toca," says Maw, the director of Innocence Project New Orleans. "It utterly failed him for 31 years, ruined his life, and ultimately forced him to plead guilty to a crime he didn't commit in order to get out of prison."

Sentencing law expert Douglas Berman, a professor at Ohio State University Moritz College of Law, says it's not surprising Cannizzaro offered Toca a deal. A Supreme Court case would have reflected negatively on both Louisiana—whose high court decided in November 2013 against retroactivity—and the DA's office. "This was a case where there was some residual uncertainty about guilt, a case in which the victim's family was supportive of releasing the defendant," Berman says. "I think those are the kind of circumstances that would've made a great majority of courts comfortable saying, 'This is why the rule needs to be retroactive.'" Cannizzaro did not respond to requests for comment.

Children's advocates who weren't directly involved in Toca's case say they don't blame him for taking the deal. "First and foremost, good for him," says Marsha Levick, deputy director and chief counsel of the Juvenile Law Center, a nonprofit law firm in Philadelphia that advocates for children in criminal courts and the child welfare system. "I don't think anybody who has been waiting for the retroactivity issue to be ruled upon would in any way question the decision that George Toca made. How could he not walk out of prison after 30 years?" Nevertheless, Levick concedes, for other juvenile lifers nationwide, "obviously it was disappointing." At least five cases—three in Louisiana, two in Michigan—have been sent for Supreme Court review and could replace Toca's, but not until the next term at the earliest.

"Those are the kind of circumstances that would've made a great majority of courts comfortable saying, 'This is why the rule needs to be retroactive.'" —*Douglas Berman*

On a cool Friday afternoon in late February, Toca sat outside not far from the Innocence Project New Orleans offices, soaking in the late-winter sun. He'd been out of prison for two weeks. "When my lawyer came to me and said, 'You can sign this agreement and leave,' I was devastated, but I knew I had to sign it," he said. "If I didn't, I knew I was gonna die in Angola." He offered an apology to the other lifers who now have to wait for their own fates to be determined. "I know they was really relying on my case to get the retroactivity of the *Miller* case resolved," he says, looking downward. "I'm sorry that I let them down. This was all I could do." —*Matt Stroud*

The bottom line Inmates sentenced to life as children won't get Supreme Court hearing after the lead plaintiff cut a deal that set him free.

Health Care

Dr. Watson Will See You Now

▶ **IBM doesn't want the FDA to make rules for its supercomputer**

▶ **"No human being can read 5 billion pages of medical literature"**

In late January, Republican Representative Fred Upton of Michigan, chairman of the House Energy and Commerce Committee, proposed a major overhaul of Food and Drug Administration regulations to accelerate the approval of new medical technologies. The bill would give the FDA two years to come up with a process for testing software that diagnoses disease. It exempts from FDA oversight computer-aided services that recommend treatment options. Senate Republicans are drafting similar legislation.

One of the bill's biggest cheerleaders is **IBM**, which spent $5 million lobbying in 2014 and has deployed at least two firms as well as its in-house staff to persuade Congress to allow its supercomputer, Watson, to be classified as an unregulated medical adviser. "The current Food and Drug Administration regulatory framework was largely developed during the decades before the rise of today's sophisticated IT technologies," Zachary Lemnios, vice president for research strategy at IBM, said at a House hearing in 2013.

IBM is hoping to avoid the problems faced by technology companies such as **23andMe**, a mail-order DNA testing service backed by Google, which the FDA barred from offering health analysis without regulators' approval. IBM said in a statement the proposed legislation "will foster innovations that can help doctors and nurses better identify and personalize treatment options."

IBM has joined leading medical centers including Memorial Sloan Kettering and the Mayo Clinic in developing software to help doctors far from specialty centers diagnose patients and design treatment plans. "Everyone would benefit from having the world's experts on call," says Lynda Chin, chair of the department of genomic medicine at the University of Texas MD Anderson Cancer Center. The center is developing with IBM a program called Oncology Expert Advisor, which combs through medical studies, drug interaction information, and other data to make customized treatment recommendations.

Watson's fans say that because doctors interpret the results provided by the machine, there's no need for it to undergo the same rigorous testing required of devices such as pacemakers. "No human being can read 5 billion pages of medical literature in two seconds," says Eric Topol, chair of innovative medicine and professor of genomics at the Scripps Research Institute in La Jolla, Calif. Others say it's medically irresponsible not to ask IBM to demonstrate the reliability of the diagnostic advice derived from Watson's algorithms. "The more evidence, the more information, the better," says Arthur Caplan, founding director of the Division of Medical Ethics at New York University Langone Medical Center's Department of Population Health. —*Anna Edney*

The bottom line Congress may weaken oversight of medical technology, and IBM is lobbying in favor of the change.

Edited by Allison Hoffman
Bloomberg.com

Beyond Windows

▶ **Microsoft's new CEO see iOS and Android in its future**

▶ **The company hasn't shown "vision like this in a long, long time"**

"Our industry does not respect tradition. It only respects innovation," Satya Nadella said in February 2014 when he was appointed chief executive officer of **Microsoft**. After 39 years, the company Bill Gates co-founded had come to be perceived as an out-of-touch behemoth that relied too much on its Windows operating system and failed to move into new markets, like mobile. Key products such as Microsoft Office—the suite of applications that includes Word and Excel—had been designed around Windows, with only parts converted to work on **Apple**'s iOS and **Google**'s Android systems. Nadella's accession would be a chance to reorient the company, getting it to introduce products that looked outside Windows and to develop new business models.

Nadella has aggressively pursued this course. Since December, Microsoft has bought two small companies that focus on mobile productivity apps for iOS and Android phones and tablets. To appeal to younger users, the company last September purchased Mojang, maker of the popular Minecraft video game, for $2.5 billion, and it's adding features to Windows such as 3D holograms that users view through a headset and control with hand gestures. The newest version of Microsoft's Power BI (business intelligence) product—a dashboard for data analysis—was released in January, first for iOS systems. "Microsoft hasn't really shown any sort of vision like this in a long, long time," Michael Silver, an analyst at Gartner and long-time Microsoft watcher, said in January when it unveiled the holograms. "All it took was replacing the senior management."

In Nadella's first year, Microsoft stock rose 14 percent, and sales increased 12 percent. The new CEO, unlike his predecessor Steve Ballmer, is popular with investors, venture capitalists, and startups. Even employees like Nadella, surprising for a chief executive who signed off on the largest layoffs in Microsoft's history—18,000 job cuts were announced last July. Staff say they appreciate Nadella's strategy shifts and attempts to make the company leaner and less bureaucratic.

The big issue Nadella faces is how to generate more revenue with new software and features, such as cloud subscriptions and free apps replacing pricey Windows and Office licenses. Revenue is projected to increase 8.6 percent, to $94.3 billion, this fiscal year, slowing from last year's double-digit growth, according to data compiled by Bloomberg. "He's hit all the low-hanging fruit—that said, these things were not easy to do," says Brad Silverberg, a venture capitalist and former Microsoft executive.

"Where there are execution issues, we will address them," Nadella said on a conference call in January. "Where there are macroeconomic issues, we will weather them." Microsoft declined to make Nadella available for an interview.

Windows, which once dominated computing and ran on more than 90 percent of computing devices, now runs on 11 percent of computers and gadgets, according to a report from Sanford C. Bernstein. Nadella and Windows chief Terry Myerson are looking at ways to update the software.

"The organization knows it's go-time. There are changes in the market we need to respond to." —*James Phillips*

Nadella uses the Power

BI dashboard to track and compile huge amounts of information on product usage and financial performance to see what works and what doesn't, says James Phillips, general manager of the product. Nadella also measures and coordinates executive performance with metrics from the dashboard. "Satya has been leading the charge for everyone in the company to be more data-oriented," says Chief Strategy Officer Mark Penn.

Microsoft's quarterly earnings report in January highlights the hurdles Nadella faces. While cloud software sales to businesses more than doubled in the quarter that ended Dec. 31, sales of traditional Office and Windows software to companies fell short of analysts' estimates. Windows sales to personal computer makers who put the program on their machines dropped 13 percent. In total, profit declined 11 percent from the previous year, to $5.86 billion, while sales rose 8 percent, to $26.5 billion.

Revenue is being hurt by fluctuating currencies, while the Chinese government is investigating Microsoft over alleged anticompetitive practices and seeking to end purchases of its software. The government of Russian President Vladimir Putin says it wants to reduce reliance on Microsoft.

Internally, Nadella and his executives make the point whenever they can that the day could come when new and younger generations of computer and software users might not use its products. At one board meeting last year, Windows chief Myerson showed a slide with pictures of students using Apple Macs and iPads, according to Microsoft spokesman Peter Wootton.

In 2014, Nadella told employees at a town hall that they should skip meetings if they don't really need to be there. And he's advised workers to come to him directly if they feel the bureaucracy is stifling. "The organization knows it's go-time," says Phillips. "There are changes in the market we need to respond to."

Nadella's also changed the way engineering teams are structured, eliminating testers to speed up software releases and adding data scientists and designers to the teams. He's looking at cutting some middle managers to make decisions faster and to eliminate layers of bureaucracy, Wootton says.

Eli Lilly Chief Technology Officer Mike Meadows says Microsoft is more open and listening to what customers need. He was glad to see the company demonstrate its products on iPads at Microsoft's chief information officer conference last fall—Lilly's 20,000 salespeople use Apple tablets, Meadows says. "They're starting to demonstrate more understanding of reality," he says. "They would say, 'We were going in this direction already,' but Satya lit a fire." —*Dina Bass*

The bottom line Nadella is working to push Microsoft out of its Windows slump and into cloud computing and apps for iOS and Android.

E-Commerce

The Case of the Stubbed Hub

▶ The No. 1 ticket resale site is being squeezed by rivals and its parent

▶ "StubHub is a part of EBay, and we have no plans to change that"

In January 2014, **StubHub** attempted something radical. Addressing the frustration of its customers, the online ticket reseller began including its bevy of fees in the first price a customer sees, rather than tacking them on just before purchase. Now when you click "buy," a pair of tickets listed at $100 will cost $100, not $125. According to StubHub, customers said they wanted—and say they love—the transparency. But the change hasn't improved sales.

Because StubHub, which generated $500 million in revenue last year, baked its fees into the list price, its tickets looked more expensive than those of rivals. Sales for the company fell more than 10 percent in the months that followed the pricing change, according to Wedbush Securities, as competitor **Ticketmaster** gained market share. StubHub further trimmed its profit margins by cutting its take from each sale. By November, Chris Tsakalakis, who championed the new pricing, was out as president. (He declined to comment.) Still, the ticket reseller has stuck with the policy, which spokesman Glenn Lehrman says is among the most popular moves the 15-year-old company has ever made.

StubHub's problems come amid a massive restructuring at parent company **EBay**, which on Jan. 21 announced plans to eliminate 2,600 jobs (about 7 percent of the total) this year across its holdings. EBay will soon spin off online payment system PayPal, and it's assessing how the rest of its properties fit into its future.

The online auction house bought StubHub in 2007 and has let it more or less run itself. But EBay's also kept it on a live-within-your-means budget, which has only tightened since the announced restructuring. New features, such as a mobile app released last summer listing concerts, must be funded by cuts elsewhere in the business, says a person familiar with EBay's operations who isn't authorized to discuss them. About 100 people were fired last year, and the remaining 900 StubHub employees fear more cuts are coming, say two people close to the company.

While StubHub is a small piece of EBay, the two businesses face similar challenges. StubHub turned the practice of scalping into a legitimate business; it moved $3 billion worth of concert and sporting-event tickets last year. "They've had a huge impact," says ticket industry consultant Doug Lyons. Like EBay, StubHub's simple-to-use marketplace has changed little from its original concept. As its markets matured and competitors emerged, growth slowed.

$3b

The value of concert and sporting-event tickets StubHub sold last year

StubHub remains the industry leader, with about 50 percent of the ticket-resale market. Still, the pricing change and belt tightening have been good for competitors, says Gil Luria, an analyst with Wedbush. Ticketmaster, whose main business is primary ticket sales, is moving onto StubHub's turf as it focuses on its resold ticket service. For some events, tickets sold on its site by brokers are available alongside regular ones, ▶

Labor Apple's Asian Supply Chain

74m

iPhones sold globally last quarter

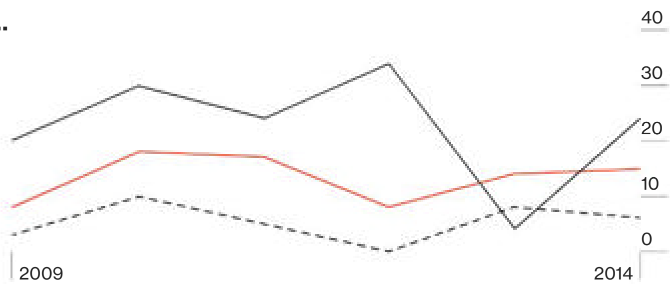
> "Why isn't it fixed? The answer is, we continue to add suppliers, and we continue to go deeper into the supply chain."
> —*Jeff Williams, senior vice president for operations at Apple*

Apple recently released its ninth annual audit of working conditions in the factories of its suppliers in Asia. The company has a long way to go to fix problems related to abusive recruiting practices and discrimination against women, but excessive overtime is declining.
—*Adam Satariano*

Problems persist...

Number of Apple facilities reporting:

- Women screened for pregnancy before being hired
- **Workers who are in debt because of huge fees paid to recruiters**
- Underage children



...but overtime has decreased

In 2012

38%

of workers in Apple's Asian factories stayed under the company's 60-hour weekly limit

By 2014, the share of workers who stayed under 60 hours a week rose to

92%

◀ with a cut from the sale going to Ticketmaster. Ticketmaster, which declined to comment, has seen resale tickets increase about 30 percent from a year earlier and triple for concerts. It's second to StubHub with an 11 percent share of resales, according to *Billboard*. "We're seeing a convergence between the primary ticket and secondary markets," says Andrew Dreskin, chief executive officer of **Ticketfly**, which sells concert tickets for clubs. That will make it tougher for players who operate solely in the secondary market, he says.

Private investors have approached EBay about buying StubHub, say two people involved in the talks who aren't authorized to discuss them. StubHub needs an injection of cash so it can acquire other ticketing businesses, compete more directly with Ticketmaster in primary ticket sales, or expand into a wider range of event packages such as swanky dinners and vacations, the sources say.

EBay had contemplated selling StubHub but doesn't want to now, says a person familiar with the company's plans who isn't authorized to discuss them. "StubHub is part of EBay, and we have no plans to change that," says EBay spokeswoman Amanda Miller. StubHub spokesman Lehrman says the company understood the fee changes would mean a hit to sales but those will rebound over time. He says the change marks the company's first step toward expanding into sales ranging from tours of the Empire State Building to yoga classes. "Right now we're focused on tickets, but our goal is to go beyond that," he says. And the new packages will bring advertisers to the site, he says. Still, the company doesn't have all the time in the world to take its next step, says Dave Brooks, the founder of industry publication *Amplify Media*. "StubHub's core product is strong and powerful," he says, but Ticketmaster "is really figuring out ways to close the gap." —*Adam Satariano*

The bottom line EBay is limiting StubHub's ability to expand into new kinds of ticket sales but doesn't want to get rid of it.

Security

Google Riles Rivals by Exposing Their Flaws

▶ Its programmers scrub others' software in search of vulnerabilities

▶ "I'm not sure who made Google the official referee of the marketplace"

Since July, **Google** has given fellow tech companies an ultimatum: Patch your software vulnerabilities within 90 days, or we'll make them public. Now some rivals and software security experts are publicly questioning Google's motives and pushing back after disclosures in January rankled **Apple** and **Microsoft**.

An elite squad of Google programmers and hackers called Project Zero has been scrubbing the company's own and competitors' software for security flaws. When it finds one, Google gives companies 90 days to act, it says, because cybercriminals strike with lightning speed when they discover a previously unknown bug. "You should be able to use the Web without fear that a criminal or state-sponsored actor is exploiting software bugs to infect your computer, steal secrets, or monitor your communications," Google said in July when it announced Project Zero.

The company says it's trying to help everyone and protect its own products that run on others' devices and software. But Google, many in the tech industry argue, is usurping a role best left to government. "I'm not sure who made Google the official referee of the marketplace for vulnerability notification," says John Dickson, a principal with software security company Denim Group in San Antonio. In response to the backlash, on Feb. 13, Google announced it would grant a 14-day grace period for companies that confirm they will fix the problem within the additional time.

Dickson says that while pressuring companies to fix flaws is a good idea, Google's targeting of competitors calls its "noble motives" into question. According to a report released on Jan. 26 by Risk Based Security, a company in Richmond, Va., Project Zero has identified 39 vulnerabilities in Apple products and publicly outed the computer company 16 times for failing to address them within the requisite 90 days. In early January, Apple asked Google to wait about a week before going public so it could fix three flaws in its Mac OS X operating system, according to a person familiar with the request who wasn't authorized to speak publicly. Google

FROM LEFT: GETTY IMAGES; JOSEPH XU/MICHIGAN ENGINEERING; DATA: APPLE

knew the fix was coming and even had the updated software in its possession, because Apple had already released fixes in a version for software developers, the person says. It refused to wait and released details of the flaws.

Microsoft has been more vocal in criticizing Google's tactics. Project Zero has found 20 vulnerabilities in the software maker's products, three of which it publicized, according to Risk Based Security. "While it is positive to see aspects of disclosure practices adjust, we disagree with arbitrary deadlines because each security issue is unique and end-to-end update development and testing time varies," says Chris Betz, senior director of Microsoft's security response center.

Project Zero opponents say it puts online security at risk. Chinese hackers exploited a Web security flaw known as Heartbleed in 2014 to attack **Community Health Systems** a little more than a week after security research company **Codenomicon** publicized the hole. The number of flaws discovered in Internet software rose to 7,903 in 2014 from 5,174 in 2013, says Christopher Kissel, an analyst with research firm Frost & Sullivan.

Some in the software industry endorse the hard-line approach, arguing it puts pressure on companies to tackle security problems faster. It often takes companies months, and sometimes years, to patch bugs. "If we have huge companies like Microsoft, Apple, and Google going at each other and pushing for better security, it's a win across the board," says Tom Gorup, a manager with Rook Security in Indianapolis.

A 90-day deadline might not be practical for companies that have to review thousands of lines of code and make sure patches don't negatively affect other software, says Craig Young, a senior security researcher with Tripwire, a company in Portland, Ore., that specializes in cyberthreat detection. Some companies also are negligent, he says. "We've had a lot of experiences where vendors will seemingly not care about something unless it's in the headlines or unless there's something out there that people see as an immediate threat." —*Chris Strohm and Jordan Robertson*

The bottom line Google says its software scrubbing makes the Internet a safer place; critics say it doesn't.

Edited by Jeff Muskus and Dimitra Kessenides
Bloomberg.com

Innovation

Fireproof Batteries

Form and function
When placed between the electrodes inside lithium ion batteries, a high-strength film derived from Kevlar fabric can help withstand temperature changes and prevent short circuits that cause fires in planes, cars, and electronics.

Innovator Nicholas Kotov

Age 49

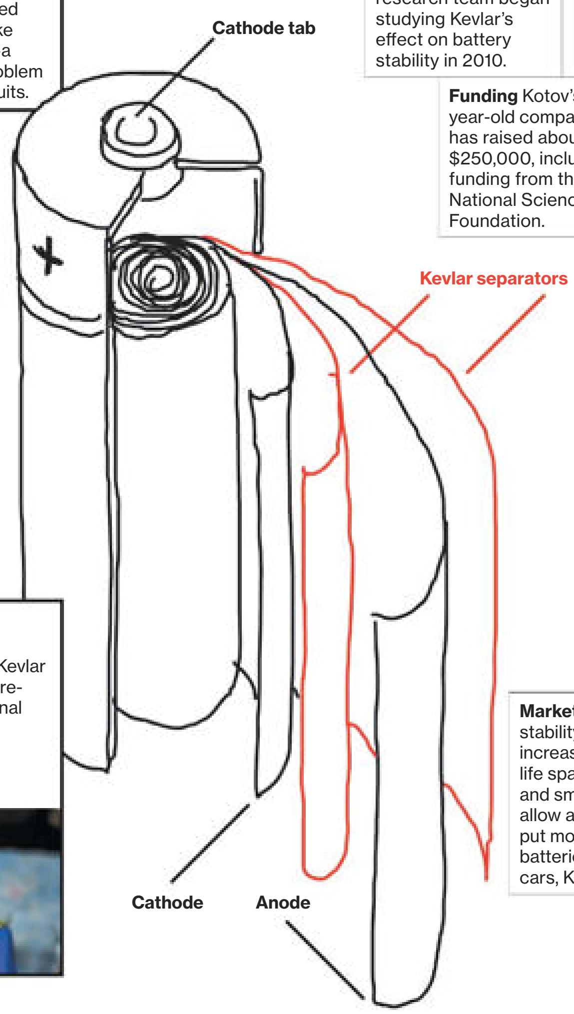
Chemical engineering professor at the University of Michigan, co-founder of Elegus Technologies

1.

Weaving Kevlar is broken down into nanofibers and tightly woven into a polymer mesh that can't be pierced by sharp metal, needlelike formations in batteries—a surprisingly common problem and source of short circuits.

Origin Kotov and his research team began studying Kevlar's effect on battery stability in 2010.

Funding Kotov's year-old company has raised about $250,000, including funding from the National Science Foundation.



2.

Protection The flexible Kevlar mesh is more temperature-resistant than conventional materials such as liquid electrolytes, but doesn't hamper the flow of ions within a battery.

Markets The greater stability could increase the battery life span of laptops and smartphones and allow automakers to put more powerful batteries in electric cars, Kotov says.

Next Steps

As Elegus begins to pursue customers, Chief Executive Officer John Hennessy says the biggest challenge for the five-person company will be to increase output. Elegus doesn't yet have the capacity to make industrial-size amounts of its film for battery factories, he says. It expects to secure funding by the fall to start pilot production runs. —*Belinda Lanks*

February 23 — March 1, 2015

PHOTO ILLUSTRATION BY 731; PHOTO: JASON ALDEN/BLOOMBERG

▶ **CEO Dimon vows to boost spending to protect data from thieves—and foreign powers**

▶ **"It's a brave new world that's not very well understood by the people playing the game"**

In the days following the massive breach of **JPMorgan Chase**'s computers last summer, the bank's security chief, James Cummings, rarely left his operations center in its Manhattan headquarters. He directed a select group of colleagues to search for links to the Russian government. There was little evidence of a government tie, especially so early in the investigation, but Cummings, a former head of the U.S. Air Force's cybercombat unit, was confident they'd find more.

Convinced that it faces threats from governments in China, Iran, and Russia, and that the U.S. government isn't doing enough to help, JPMorgan has built a vast security operation and staffed it increasingly with ex-military officers. Soon after joining the bank in early 2014, Cummings helped hire Gregory Rattray–like Cummings, a former Air Force colonel–as chief information security officer. Together the men oversee a digital security staff of 1,000, more than twice the size of Google's security group. To make it easier to woo military talent, the bank built a security services facility in Maryland near Fort Meade, home of the National Security Agency.

The military overtones are no accident. JPMorgan is responding to attacks that the federal government is unable or unwilling to stop, says Nate Freier, research professor at the U.S. Army War College, yet it isn't clear whether the bank's weapons-grade operation is doing a better job than law enforcement agencies. "It's a brave new world that's not very well understood by the people playing the ▶

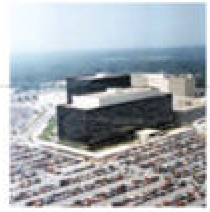
Spit and Polish

That's more than twice the size of Google's security department

Cummings and Rattray use lessons learned in the military to lead the **1,000** employees in JPMorgan's security operation

Beat of war
Rattray sends out a list of important staff meetings at the beginning of each week, which he labels a "battle rhythm"

Military rigor
Cummings exhorts employees to adhere to the core values he learned in the Air Force, such as "service before self"



JPMorgan built a computer security center near Fort Meade in Maryland, headquarters of the **NSA**

◀ game," Freier says. "It really is every man for himself."

The bank hasn't said publicly who it believes is responsible for the June attack, in which hackers stole the names, addresses, and e-mail addresses—but not credit card numbers or passwords—of 83 million individuals and small businesses. Several people connected to the probe say Cummings and Rattray strongly suspected very early that it was engineered by the Kremlin. That message was delivered through back channels to the White House, according to a senior U.S. official.

Cummings and Rattray, who was Condoleezza Rice's cyber expert when she headed the National Security Council under President George W. Bush, retain a network of high-level contacts in Washington. Less than three weeks after the breach was discovered on Aug. 27, the two men organized a conference call with more than a dozen agents from the FBI, Homeland Security, the Secret Service, and the Treasury Department. Over the course of an hour, they made the case that the breach was a national security matter, say two people familiar with the call.

Patricia Wexler, a JPMorgan spokeswoman, declines to say how the bank categorizes the breach. "While we were open to all theories in the early stages of the investigation, we never concluded that this was a state-sponsored attack," she wrote in an e-mail. The bank wouldn't make executives available.

The military orientation of JPMorgan's security team leaders may incline them to see the involvement of governments and spies when companies face a range of threats, many motivated purely by profit, says Brendan Conlon, who spent 10 years in computer network operations with the NSA and now runs Vahna, a security firm in Washington. "It's like groupthink," he says.

The FBI initially assigned two groups of agents from the New York office to the case—one specializing in nation-state attacks and one in criminal hacks—because it was unclear which group would be needed. Rattray and Cummings had already decided, according to two people familiar with the investigation; they advised the bank security team to refer to the breach as a probable national security event.

A person familiar with the investigation says Rattray and Cummings were under pressure from bank executives to obtain a letter from the Department of Justice that would have exempted the bank from having to notify customers and regulators of the data loss. These rare waivers are typically only granted when the victimized company can convincingly show that the loss was the result of a state-sponsored or serious criminal attack that requires absolute secrecy while the government investigates.

Within two weeks of the conference call, the FBI handed the investigation to criminal specialists and told the bank it wasn't getting the letter. One key piece of evidence the FBI considered was that the hackers were using a data center in St. Petersburg, Russia, of the sort used by low-level cybercriminals to send spam or operate botnets, according to three people familiar with the probe, who were among more than two dozen interviewed about the breach and who asked to remain anonymous because the investigation is confidential. "The evidence collected thus far points to it being a criminal actor and not a nation-state," says Ari Baranoff, assistant special agent in charge of the Secret Service's Criminal Investigative Division.

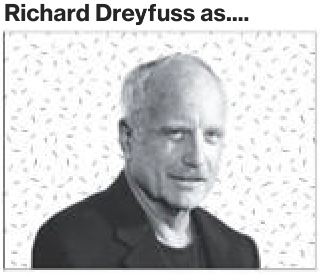
Bank insiders say Rattray and Cummings, aided by private cybersecurity companies, haven't found a smoking gun. But there are what one person familiar with the probe described as nation-state fingerprints. The attackers appeared to have deleted or altered server logs that would have helped investigators retrace their steps inside the network—a degree of meticulousness that's a hallmark of an intelligence agency or someone trained by one. And they lingered on servers that would seem to have no value to criminals.

To Cummings and Rattray, those were signs the hackers might be engaged in a long-term operation. Rather than steal easily marketable data such as credit card numbers or account passwords, they may have been looking for deep vulnerabilities in the bank's infrastructure or custom software that could be exploited later. "Greg usually knows what he's doing," says James Lewis, a senior fellow in cybersecurity at the Center for Strategic and International Studies in Washington. "You can say these guys see spies everywhere, but the problem with that is spies are everywhere."

Not all of that information was shared with the FBI. While Rattray and Cummings were asking the government to help, they were also tightly limiting access to the attack data, to prevent leaks and also to allow the bank to control the investigation, say two people familiar with those decisions. Rattray stalled law enforcement requests for

Casting

Richard Dreyfuss as....



Bernie Madoff

On the wish list for the role of Madoff's wife Ruth: Meg Ryan, Bette Midler, and Susan Sarandon

Dreyfuss has agreed to play the Ponzi-scheme mastermind in a **four-hour ABC miniseries**, according to a person familiar with the project. A movie starring Robert De Niro, announced years ago, is still in development at HBO.

NSA: NSA/GETTY IMAGES; MADOFF: STEPHEN CHERNIN/GETTY IMAGES; DREYFUSS: JASON LAVERIS/GETTY IMAGES

information with vague explanations about legal process, according to people familiar with the matter.

The Secret Service, which has a secondary role in the investigation, became so frustrated that it threatened to seize the evidence, says one person familiar with the situation. Joseph Demarest, assistant director of the FBI's cyber division, called Chief Operating Officer Matthew Zames to discuss the issue. The bank and the FBI settled their dispute after Demarest's call with a formal agreement on information sharing. "Our relationship with JPMorgan Chase remains outstanding, and we continue to work together to solve this crime," Demarest says. Wexler, the bank spokeswoman, wrote: "The report of clashes regarding information sharing is not true."

On Jan. 8 a group of 15 state attorneys general sent a letter to the bank, asking it to explain how it can be sure that more sensitive information wasn't stolen in the breach. The answer is, it can't be sure. Six months after the hack, and despite a security budget of a quarter of a billion dollars, JPMorgan still faces big holes in its understanding of the attackers' movements or exactly what data they removed from the network. It owned an expensive system designed to capture that data—something like a video security camera that gives an after-the-fact view of a crime—but programmed it with too little storage to retain all evidence of the intrusion, according to people familiar with the bank's response. "We have a full accounting of what information was breached," Wexler wrote.

Following the attack, CEO Jamie Dimon vowed to increase JPMorgan's security budget and move quickly to address any problems exposed in the hack, which in turn has led to more hiring of defense contractors and people with military backgrounds, say three people familiar with the bank's team. Some security experts say that whatever the government's failings at protecting American companies from cyberattack, creating a mini-NSA in Midtown Manhattan isn't the answer, especially given the power and influence already wielded by Wall Street banks. Digital war is being privatized, says Freier, the U.S. Army War College professor. "What you worry about is a virtual *Guns of August* moment, where every actor is so well-armed and so able to mobilize assets in their own defense that they start an escalation."

—Jordan Robertson and Michael Riley

The bottom line JPMorgan has hired men with military backgrounds and increased spending to improve its cyber defenses.

Stocks

Courting Investors With Ramen and Ham

- ▶ Japanese companies send thank-you gifts to shareholders
- ▶ "Cash or higher dividends would be better" for institutions

Lots of investors collect dividends. Hiroto Kiritani collects melons. And ramen noodles, McDonald's hamburgers, the clothes on his back—anything, really, that a Japanese company might send him, gratis, for owning its stock. Kiritani, 65, is a big player in an obscure corner of Japan's investment world: *yutai*, which loosely translated means "hospitality."

Yutai are the gifts a growing number of Japanese companies send to stockholders as a thank-you for owning their shares. Companies in the U.S. and other countries occasionally throw perks at stockholders, but the practice has reached its ultimate expression in Japan, where a cottage industry has sprung up around yutai.

Kiritani is the unlikely king of these freebies. A former professional chess player, he watched his stock investments plunge when the financial crisis hit in 2008. Rather than sell, he held on to as much as he could, he says, and got by on gifts. "Living off yutai saved me," he says. Better still, his investments have bounced back. "Securities companies say cut your losses when stocks fall," he says, "but I say, if they drop, you should stick it out."

Yutai come in many forms, from bags of rice to free hotel stays, and sometimes they have no connection to the company's products. While **Oriental Land** gives one-day passes to its Tokyo Disneyland theme park, **Densan System**, an information technology company, offers shareholders ramen noodles, melons, and ham. Government policy favors the perks: While the tax on dividends doubled to 20 percent last year, yutai remain exempt.

> **"Securities companies say cut your losses when stocks fall, but I say, if they drop, you should stick it out."**
> ***—Hiroto Kiritani***

The goodies usually arrive twice a year, coinciding with holidays when people give gifts to family, friends, and business associates. Don't want that melon? **Yutai-Market** buys the gifts from money managers and others and sells them through its Ticket Online website.

More Japanese companies are turning to yutai as a way to court individual investors. About 1,146 public companies, or 30 percent, provided yutai as of August, according to Nomura Investor Relations. That's up from 251 in 1992. Some asset managers are less charmed by the practice. Investors often get the same yutai regardless of how much stock they own. And generally you must be in Japan to collect your gifts. Individual investors in Japan are "the only ones who feel any joy about yutai," says Kiyoshi Ishigane, Tokyo-based chief strategist at Mitsubishi UFJ Asset Management. "For institutions, it just gives them more work to do. Cash or higher dividends would be better." ▶

Giveaways

30%

of Japanese companies offer yutai—gifts to stockholders—including goodies such as:

- Yogurt drinks
- Hotel stays
- Ham
- Watches
- Theme-park tickets
- Meal vouchers
- Clothes
- Melons
- Bags of rice
- Ramen noodles

Japan's tax on dividends doubled to

20%

last year, but yutai remain exempt

◀ At a cafe in suburban Tokyo where he gets free yogurt juice, Kiritani is dressed head-to-toe in corporate freebies: a brown sweater from **Jeans Mate**, brown trousers from **Himaraya**, and a watch from **NEC Capital Solutions**. His bag is full of yutai vouchers and prepaid convenience-store cards. Kiritani says he has more money than he did when he started investing 30 years ago but less than he had at his peak in 2005. He's paid back a loan he took from his 93-year-old father during the crisis and vows never to trade on margin again. Holding a bag full of vouchers and prepaid phone cards, he says he's sticking with his strategy of buying stocks that offer yutai: "Everyone likes getting gifts." *—Tom Redmond and Yuko Takeo*

The bottom line More than 1,100 companies provided yutai as of August, up from 251 in 1992, according to Nomura.

Investing

China's IPO Boom Mints Billionaires

▶ The unending appetite for new issues enriches founders

▶ "It's not like a little bit of oversupply. There's a tsunami of IPOs coming"

China's frenzied market for initial public offerings and soaring prices for other stocks have hatched about two dozen billionaires in the first six weeks of the year and added to the fortunes of many others. "IPOs have become very hot investment products in China," says Ronald Wan, chief China adviser at Asian Capital Holdings, a corporate advisory firm. "So all the controlling IPO shareholders become very rich afterwards—they become billionaires."

Chinese regulators prohibited IPOs for 14 months starting in October 2012 to tamp down stock market speculation. After the ban was lifted in 2014, more than 100 companies sold shares for the first time in China, and the Shanghai Composite Index rose 49 percent, the biggest increase among world markets last year. With investors continuing to clamor for new issues, more than 20 stocks started trading in January. "This is a man-made scarcity," says Zhang Lu, a Shanghai-based analyst at Capital Securities.

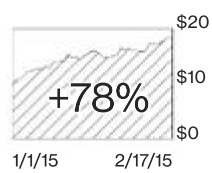
In Shanghai, where gains in the first day of trading are capped at 44 percent and subsequent daily increases for all stocks are limited to 10 percent, Wang Zhenghua, chairman of **Spring Airlines**, amassed a $1.3 billion fortune when the stock climbed by the daily limit in each of the nine days following its trading debut. Spring Air, whose executives share hotel rooms and eat instant noodles on business trips to keep costs down, has more than quadrupled in value since the IPO. Zhou Yahui, the chairman of **Beijing Kunlun Tech**, saw his net worth reach $1.8 billion when the value of the Internet game developer quadrupled following its offering.

Sun Qinghuan became a billionaire when shares of his company, **MLS**, China's biggest maker of LED products, began trading on Feb. 17 and rose the limit. Sun's 358 million shares are now valued at about $1.8 billion.

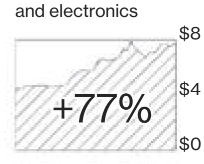
Even the prospect of an IPO can be enough to create a billionaire. **Zhejiang Ant Small & Micro Financial Services Group** is the finance affiliate of **Alibaba Group** and owner of electronic payment operator Alipay; it's about to close on a round of private funding that values the company at $50 billion ahead of an anticipated IPO, according to people familiar with the matter. The new valuation, doubling a previous figure, created 13 billionaires, including Alibaba's Chief

Into Orbit
It's not just IPOs that are skyrocketing in China. Big gains in three stocks on the Shenzhen exchange have made billionaires of the companies' chairmen.

❶ Zhou Wei
Shanghai Kingstar Winning Software
Medical software



❷ Xiao Fen
Shenzhen Fenda Technology
Consumer appliances and electronics



❸ Ruan Hongxian
Yunnan Hongxiang Yixintang Pharmaceutical
Drugstores

DATA COMPILED BY BLOOMBERG

Executive Officer Jonathan Lu and Chief People Officer Lucy Peng, as well as Wang Yulian, the mother of David Yu, the private equity partner of Alibaba founder Jack Ma. Wang owns 4.6 percent of Ant Financial, according to company filings.

The higher valuation also enriched Ma, who's added about $6.7 billion to his $35.1 billion fortune in the past year, making him Asia's wealthiest person. As a group, China's 25 richest people are up $21.3 billion for the year.

Some analysts expect further gains in Chinese stocks. At 15.5 times earnings, the Shanghai Composite Index trades at the second-lowest valuation, after Hong Kong, of the world's 10 biggest stock markets. The MSCI China Index, which tracks Chinese companies traded in Hong Kong, is valued at 10 times earnings. The Chinese central bank's move in February to cut the amount of cash lenders must set aside as reserves may also boost stocks, says Daphne Roth, head of Asian equity research at ABN Amro Private Banking.

Andy Xie, a former World Bank economist, says the surge in IPOs in China could "overwhelm" demand from investors. "There are thousands of companies that private equity firms have invested in that are ready to come into the market," Xie says. "It's not like a little bit of oversupply. There's a tsunami of IPOs coming."

That prospect hasn't stopped some of China's wealthiest moguls from joining in the IPO frenzy. Wang Jianlin, the country's second-richest person, took his **Wanda Cinema Line**, China's biggest owner of movie screens, public in January. The stock surged by the daily limit for more than two weeks after it started trading, adding $3.8 billion to Wang's $28.9 billion fortune. At least one billionaire is philosophical about the fleeting nature of such gains. Xiao Fen became one when shares of his consumer electronics company, **Shenzhen Fenda Technology**, jumped 72 percent this year. "Being on a rich list only reflects paper wealth," he says through his spokesman Zhou Guiqing, who describes Xiao as "thrifty." *—Bloomberg News*

The bottom line The successful IPOs of more than 20 stocks in China this year have helped create about two dozen billionaires.

Edited by Eric Gelman
Bloomberg.com

ILLUSTRATIONS BY OSCAR BOLTON GREEN

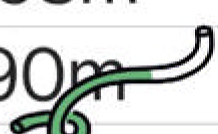
Bid/Ask

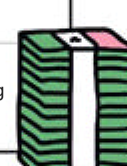
By Kyle Stock

$8m

Peugeot sells its struggling French soccer team. Tech Pro Technology, a Hong Kong-based maker of electronic components, is buying FC Sochaux-Montbéliard. Jean-Pierre Peugeot started the team in 1928 to give assembly-line workers some exercise; later, Peugeot was among the first team owners in France to pay its players. Recently the club slipped from the country's top league to its second tier.

$5.1b	**Japan Post buys an Australian shipping company.** Toll Holdings gives state-owned Japan Post a transportation network as it moves toward an initial public offering.
$4.4b	**Patrick Drahi wants more of Numericable-SFR.** Drahi, who already owns 60 percent of the cable and wireless giant, is seeking Vivendi's 20 percent stake.
$1.9b	**Fairfax Financial acquires Brit.** The deal gives Canada-based Fairfax a slice of the Lloyd's of London specialty insurance market, covering large and complex businesses.
$1.7b	**CaixaBank bids for Banco BPI.** The Spanish bank already owns 44 percent of the Portuguese lender, which has been preparing a bid for rival Novo Banco.
$263m	**Silver Bay Realty Trust buys in bulk.** The real estate investment trust will purchase about 2,460 single-family rentals, mostly in the Southeast, from The American Home.
$190m	**TE Connectivity buys AdvancedCath.** The deal marries a designer and manufacturer of communications products with a medical device maker.
$110m	**Timmins Gold purchases Newstrike Capital.** With three mines between them, the companies are trying to strike it rich in Mexico.






WILL BEING PUBLIC HURT THE CONTAINER STORE'S CULTURE?
IS RAPID GROWTH SUCH A GOOD THING?
CAN A RETAIL STORE AFFORD TO PAY EMPLOYEES $48,000?

THE CLUTTER IN KIP TINDELL

BY SUSAN BERFIELD

PHOTOGRAPHS BY HARRY GOULD HARVEY IV

A few years ago, Kip Tindell found himself at a crossroads. Tindell is chief executive officer of the Container Store, the retail company he co-founded in Dallas in 1978. He's worked with his wife, Sharon, the entire time, and many other executives have been there for decades, too. Tindell likes to fly-fish and daydream. He's slow-twitch.

Tindell's ambitions had grown over time. He realized the Container Store, which had been operating in big metropolitan areas, could expand into smaller cities. He also wanted to offer more employees stock in the company. But he was conflicted. "There are only a few things you can do to finance that," he says. "My dad did not leave me $3 billion."

The private equity firm Leonard Green & Partners, which bought a majority stake in the Container Store in 2007, let Tindell run the company as he saw fit. Looking for another private equity firm as compatible as Leonard Green would be difficult. "How are we going to find another one that can deal with us?" he wondered. He didn't want to take on more debt. He ruled out selling the company. "You subjugate your brand and management team, and that's not good," he says. He decided the best option was to take the Container Store public.

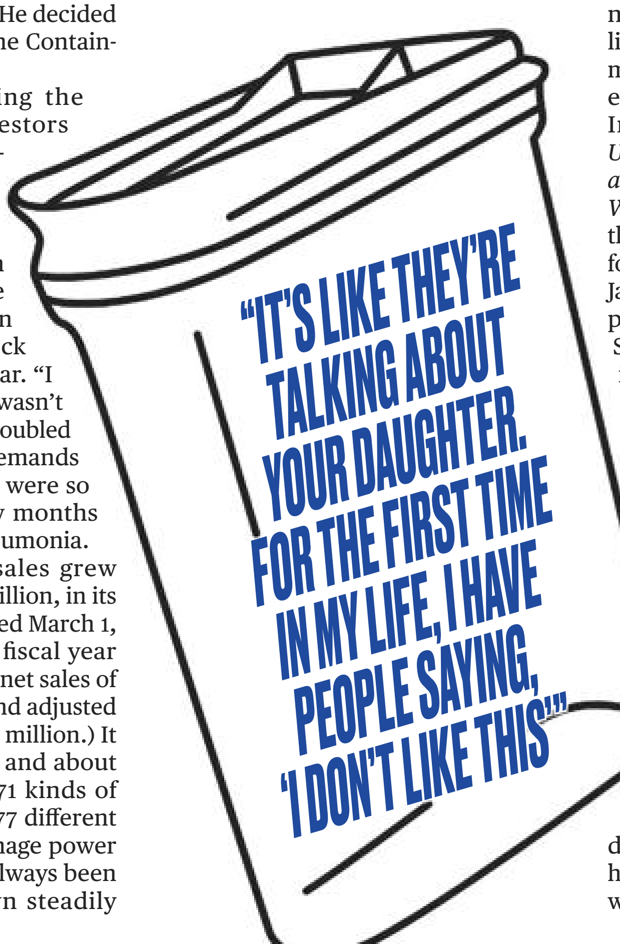
Tindell began promoting the company to potential investors in October 2013. "Hopefully we'll get along well with our shareholders," he told his executives. "We like the longer-term ones better than the shorter-term ones." The Container Store's stock began trading on the New York Stock Exchange on Nov. 1 of that year. "I was the guy on the floor who wasn't smiling when the stock price doubled the first day," he says. The demands of leading a public company were so intense, he adds, that a few months later he came down with pneumonia.

The Container Store's sales grew 5.9 percent, to almost $750 million, in its last full fiscal year, which ended March 1, 2014. (It will report its 2014 fiscal year results in April and estimates net sales of $785 million to $795 million and adjusted earnings of $93 million to $96 million.) It has 70 locations in 36 states and about 5,000 employees. It sells 271 kinds of containers for storing food, 77 different hangers, and 57 items to manage power cords. The company hasn't always been profitable, but it has grown steadily for more than three decades and outlasted all imitators. Its promise is almost existential: an uncluttered life in an otherwise messy world. Tindell says the Container Store eventually could quadruple its number of locations in the U.S., to 300.

Tindell's personal philosophy, which he refers to as the Foundation Principles (he trademarked the name), is crucial to the company's identity. He adheres to a model for conducting business without any trade-offs: Pay employees well and treat them with respect; consider suppliers and customers as family; have fun. Sixteen hundred of the Container Store's employees work full-time in the stores. They receive 263 hours of training their first year, much of it on the job. Store employees earn an average of $48,000 a year, about twice the typical retail salary, and executives are also nicely compensated. The annual turnover rate among store employees is 10 percent, very low for retail.

John Mackey, a college friend of Tindell's who co-founded Whole Foods Market with a similar perspective on business, calls this conscious capitalism. Companies that practice conscious capitalism are supposed to have a higher purpose. Costco aspires to this ethic, as do public companies such as Zappos.com, Starbucks, and Southwest Airlines. "I enjoy making money for myself and the people around me," Tindell says. "I'm not saying this is the only way to make money. I'm saying this is the best way."

Tindell and Boone at the original store in 1978



For a while, Tindell seemed to have found the perfect balance between virtue and profitability. The Container Store's share price closed at $36 that first day of trading. By early January 2014 it was near $46. Since then, as sales at established stores have consistently, though modestly, declined below the company's estimates, the stock has plummeted. In October, just as Tindell's book, *Uncontainable: How Passion, Commitment, and Conscious Capitalism Built a Business Where Everyone Thrives*, was published, the company trimmed its sales and profit forecast. The stock dropped 25 percent. In January the company reported that comparable-store sales fell 3.5 percent from Sept. 1 to Nov. 30, while online sales increased 13 percent. The next day the stock dropped 15 percent to about $18. Currently it's trading close to $20.

The Container Store's weak sales since its initial public offering could be an unfortunate but temporary problem. Even so, they raise questions about whether a company that aspires to benefit everyone can keep its shareholders happy, too: Does the company need to change, or do the shareholders? "It's been wonderful and terrible and good and bad," Tindell says of leading a public company. "It's a little more emotional than I thought it would be. It's like they're talking about your daughter. For the first time in my life, I have people saying, 'I don't like this.' If we were private, it would be fun to work on

TOP LEFT: COURTESY THE CONTAINER STORE (2)

getting sales up. It's less fun because investors want you to do it in one quarter."

The Container Store headquarters is in an industrial area near the Dallas-Fort Worth airport, past the Hard Eight BBQ restaurant and across the street from an Amazon.com warehouse. Its 1.1 million-square-foot warehouse is linked to the corporate offices. Everyone eats at the company-subsidized Gumby Café. Gumby, the flexible green toy, is the company mascot. "Be really Gumby" is one of its mottoes. Lake Tindell, built near the parking lot, is filled with bass and open to the public, though in early February the landscape is bleak and no one's there.

Tindell, 62, wears a crisp navy-blue shirt with polka dots, jeans cuffed the way Mickey Drexler at J.Crew told him to, and Toms Shoes. He's tall and trim; he took up yoga after the bout of pneumonia. "It felt a little mortal," he says. He meditates now, too.

His office is furnished in royal blue, yellow, and bright red, the Container Store's colors. There's no paper on his desk. Everything is filed away in red boxes. "There's a Zen quality to being organized," he says. "I used to be afraid to say that. You have no choice but to be reasonably well organized to get half the things done you want to."

Tindell himself is very busy these days. The company is introducing custom-order closets as well as a home-organization service, and it plans to open 10 stores this year, the most ever. He's genial but also seems slightly agitated. He twirls a pen throughout the interview. "I've worked as many hours this past year as when we started," he says. He doesn't get to spend much time with friends or the rest of his family. (Sharon is the chief merchandising officer and works down the hall.) He also doesn't get to go fly-fishing as much as he used to: "Last year I fished only twice. That's not acceptable."

Tindell doesn't apologize for his desire for order, or at least as little disorder as possible. "If your house is unbelievably messy, I probably won't come back to visit. I'll meet you at a restaurant. I'm just not comfortable around mess. You don't have to be obsessive-compulsive about it. Well, OK, maybe just a tiny bit." As a kid, he would reorganize the pantry and linen closet when his parents were out of the house. His first job in retail was in a paint store; his supervisor, Garrett Boone, would become his business partner.

Tindell had a lot of fun at the University of Texas at Austin, where he spent a good part of the 1970s. His parents stopped paying his tuition after six years, and he returned home to Dallas in 1977 without a degree. The next year he and Boone opened the first Container Store: 800 kinds of boxes, trunks, bins, and more in a 1,600-square-foot space in a Dallas shopping center.

The store was profitable within months. It offered clear and colored plastic boxes, made by the California manufacturer AMAC Plastic Products, for everyday storage. A favorite of artists, the original boxes are part of the permanent collection at the Museum of Modern Art. Salespeople were taught to show how a product meant to hold cookie sheets could also be used to organize puzzles and files. The company introduced the Swedish Elfa closets, which are designed in the store and built at home. The closets and shelves became its best-selling, highest-margin products.

The Container Store always paid well and shared information with employees about its finances. From the start, Tindell and Boone talked about creating long-term, mutually beneficial relationships with customers and suppliers. Staff were encouraged to recruit family, friends, customers. "I always think about this girl in fifth grade. She was the coolest girl, and she liked me. It really made me want to go to school every day," he says. "There doesn't have to be that chemistry in the workplace, but we want people to adore their colleagues."

He and Boone didn't open a second store until 1981, when sales passed $1.5 million and they had the money to do so. Over the next six years they opened four more in Austin, Dallas, and San Antonio. The opening of the seventh Container Store, in Houston in 1988, was a turning point. The store was located in an exclusive neighborhood across the street from one of the country's busiest malls. The manager, Amy Carovillano, was unprepared for the crowds. She had to quickly hire people and put them to work without any training. The store was a mess, and she was a wreck.

Tindell with his wares at company headquarters

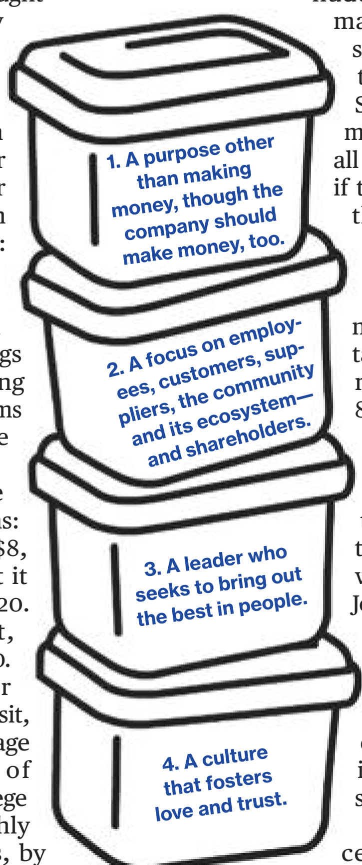
Tindell grabbed his Philosophy Epistle File, quotes and anecdotes he'd been collecting since high school, and headed to Houston. The talk he gave to the employees was the first that made explicit his business principles. A picture of the employees huddled in Carovillano's living room hangs on a wall of the Gumby Café. (Carovillano now oversees the distribution center.)

These days full-time employees receive a week of training in Tindell's seven Foundation Principles. There's some Andrew Carnegie, and Dale Carnegie, too. Among them are: One great person equals three good people. Fill the other guy's basket to the brim. (Making money then becomes an easy proposition.) Another principle is called Man in the Desert Selling: Sales staff are taught that customers usually need more than they think they do—not just the metaphorical glass of water, but sunscreen and a hat. No one ever asks: "How are you?" or "Looking for anything in particular?" They ask: "What space are you trying to organize?" The principles have been printed on shopping bags and T-shirts and packing tape. The conference rooms at the headquarters are named after them.

The Container Store stocks about 10,000 items: The average price is $8, and 80 percent of what it sells costs less than $20. An Elfa master closet, though, can sell for $2,000. The typical customer is female, spends $60 a visit, is well-off (with an average household income of $110,000), and has a college degree. "The more highly educated the person is, by far the better customer they are," Tindell says. Thirty percent of the customers shop four times a year and account for 83 percent of sales. The company has started offering them special discounts, product previews, and "hugs" (literal and symbolic) to encourage them to come in more often. "We're selling empty boxes," says Tindell. "We need a better-educated, motivated, and trained employee to get a customer to buy 12 items to organize that toy area instead of just one."

ARE YOU GOOD?

Four traits of virtuous companies, as defined by Conscious Capitalism Inc.



People can buy empty boxes at Target, Walmart, and Amazon.com, too. The Container Store has to offer premium items that aren't available elsewhere—it says half its products are exclusive—with extra-attentive service. "If you pay your people well, you have to charge a healthy amount for the product," says Matt Nemer, managing director of equity research at Wells Fargo Securities. "It's Walmart in reverse."

That's one reason the Container Store works so closely with its suppliers and why Sharon reviews each product that goes into the stores. "Conscious capitalism is not a magical formula," says Kip. "You can have the right philosophy and the wrong product."

Every morning at the Container Store begins with a huddle. In the stores, the manager announces the sales goals and Foundation Principle for the day. Staff can see minute-by-minute status reports across all stores in their area, and if they're not keeping up, the manager will coach them. Almost 12 percent of sales go toward salaries, far more than at most retailers. The Container Store gives annual raises of as much as 8 percent. Managers consider how cooperative employees are, how much responsibility they take, how much energy they have. "It shouldn't work, but it does," says John Thrailkill, who oversees store systems. "We spend a ton of time on this." Melissa Reiff, the chief operating officer, reviews every pay increase. It's the first thing she does each morning.

The distribution center also has its own metrics. "That's not counter to our culture, that's essential to it," says Carovillano. "We're very competitive, in a good way." The 350 or so workers she oversees are expected to do more than just make their numbers. "We want them to do that and help everyone else, help us run our business, be engaged, speak up in huddle," she says.

It's not for everyone: New employees figure that out pretty quickly, then they leave. Carovillano describes the management style as parental. "We push them a little and pull them a little and love them the whole way," she says. "You have to be in a very secure place yourself to start loving your employees. It's much easier to bark orders. Instead we go, 'Hey, we have a big day, and here's what we have to do.' "

Tindell renamed Valentine's Day "We Love Our Employees Day." "We bring chocolates, gifts, tell them we love them. We hug," says Carovillano. There's an annual chili cook-off and distribution center derby. When there's news to celebrate, Kip, Sharon, and Reiff gather everyone in the atrium at headquarters. There are games and snacks and confetti—lots of confetti.

Tindell believes that recognizing people's efforts makes them happier and more fulfilled, which benefits their families and communities. He often refers to psychologist Abraham Maslow's hierarchy of needs. "My employees advance on Maslow's hierarchy," he says. "I didn't think about this when we started out. But it's the most powerful thing you can do. Then the universe conspires to assist you."

Well, not always. After two tough years during the recession in 2008 and 2009, sales at established stores increased for three consecutive years. Since the 2013 IPO, though, the company has suffered from a combination of bad luck, inadequate planning, and unrealistic expectations.

In the winter of 2014, when the company held its annual Elfa closet sale, the numbers weren't as good as predicted. Tindell blamed bad weather. Then sales declined 0.8 percent in the spring. This time he said the problem wasn't just the weather. The Container Store and other chains were in what he called a "retail funk." People were shopping less, and other companies were discounting more. Tindell can't drastically lower prices without destroying his business model. Instead, he has to persuade customers to come into the stores and his best customers to buy more.

Tindell held out the promise of the Contained Home, the home-organization service, and the premium TCS closets, which he calls the most significant merchandising initiative in the company's history. He says he should have introduced them sooner; now he has to explain why he can't do so faster. "There are plenty of big important investors who want us to roll out TCS closets in 15 minutes," he says. "It would fail if we did. It's really complicated."

After poor sales last summer, "Kip got beat up verbally, but clearly he should have seen it coming," says Rob Wilson, the founder of Tiburon Research Group. "This is how the game works." In October the hedge fund Apex Capital increased its stake; it now owns 4.5 percent. (Leonard Green has a 57 percent stake, and the

Tindells own almost 7 percent.) Apex urged the company to accelerate store growth, boost margins, and better control costs. “We’re actively engaged in suggestivism,” the founder of the fund, Sandy Colen, told Bloomberg News.

“Business doesn’t go like this,” Tindell says, drawing a 45-degree line upward. “It goes like this”—he draws an upward spiral. The Container Store has gone through slow cycles before, he says. “Then we go nuts, turn over every stone, and find 37 little things we can do better and a few big things.”

The Contained Home service, with the service itself provided by professional organizers, is available in 29 stores and will be in all of them by December. The average price is $2,000 per home. The TCS closets have been selling for about twice that on average, though they’ve been available only since November in seven stores in the Dallas area. It’s hard to know how they’ll do elsewhere, and it will take time to find out. Tindell expects the closets to be sold in every store by the end of the year.

“These initiatives will be so overwhelmingly successful that they’ll cure all our inadequacies, and our shareholders will be ecstatic,” he says. He seems to have convinced one, Apex’s Colen, who says TCS closets should boost margins and earnings. Tindell says the benefits should last at least three years. “Then we have to come up with the next big hairy initiative.”

Amid the slowdown, Tindell and Reiff have been trimming costs, though not salaries, and looking for other ways to

Employees get 263 hours of training in their first year, much of it on the job

SCOTT OLSON/GETTY IMAGES

increase productivity in the stores. They recently extended the Elfa sale by three weeks. The company’s gross profit margin is still high—almost 59 percent. If sales don’t improve, though, Tindell will be in a difficult position. His principles won’t substitute for a better plan. “Being public makes practicing conscious capitalism a little more challenging for any company. It’s a test of the philosophy,” says Raj Sisodia, a Babson College professor who, with Mackey of Whole Foods and others, started a nonprofit dedicated to conscious capitalism. He joined the Container Store’s board of directors in 2013.

Growth presents challenges, too. While the company has opened 70 stores since 1978, it expects to open 10 over the next year, including one that it’s relocating. Tindell has promised to increase square footage by at least 12 percent a year, but hasn’t said for how long. (Stores are roughly 25,000 square feet each.) It’s also possible that the impulse, and the means, to organize a home isn’t as strong in the less affluent cities and suburbs where the company is expanding. “The formula is changing,” says Nemer of Wells Fargo. “The Container Store used to have slow, controlled growth; they waited for the best locations and the best people. Now the risk profile is going up as they move faster. That’s a function of being public.”

Most executives who practice conscious capitalism confront the tension between those measuring in months and those measuring in years. “It is harder for public companies to continue to take care of employees because of short-term pressure,” says Zeynep Ton, an adjunct associate professor at Massachusetts Institute of Technology and author of *The Good Jobs Strategy*. “The founder is in a better position than anyone else to say this is what our business is about, this is what we won’t give up. They have to stick to their values 100 percent of the time, not 95 percent of the time.”

“A good capitalist will see the value of what we’re doing,” Tindell says. “We would not be as profitable if we did less for our employees and vendors.” But some capitalists are cantankerous, he’s found, and he’s trying not to take it personally. “Even if someone is shorting your stock, you can learn from them if you can keep your ego in check,” he says. Later in the conversation, he notes that although investors know more about his business than they used to, they don’t know as much as they think they do.

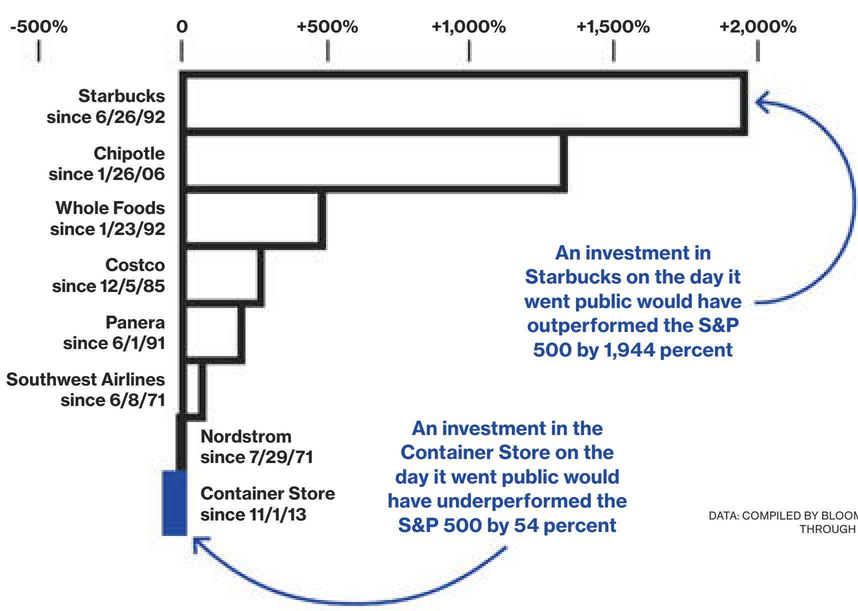
Jim Sinegal, the co-founder of Costco, spoke with Tindell about dealing with short-term investors. His advice: Don’t run your business for them. He believes companies eventually get the shareholders they deserve. “We value our long-term shareholders. But we didn’t have them right away,” says Sinegal. “We had to prove ourselves, and rightfully so. You have to produce.”

Sinegal also told Tindell not to pay attention to the stock price for the first 10 years. Tindell has found it difficult to heed that advice. He describes a troubling encounter with an investor who’d bought Container Store stock near its peak and was worried about paying for her daughter’s private school tuition. “What could I say? I wanted to say: ‘Did you know it was selling at 170 times earnings?’ But that would be cruel. So I hugged her.”

After our conversation, Tindell flew to Mackey’s ranch outside Austin for a weekend meeting with other conscious capitalists. The prospect seemed to cheer him. “I am a little surprised that human beings can be so impatient,” he says. “If you retrieve your lure too fast you’ll never catch any fish. It’s stunning how slow you have to go. If you think you’re fishing slowly enough, fish half again slower, and you’ll catch many more.” Ⓑ

CONSCIOUSLY CRUSHING IT

Companies that abide by the tenets of conscious capitalism have generated handsome returns for investors. Below are the total returns of a few such companies relative to the Standard & Poor’s 500-stock index since they went public. The calculations assume dividends were reinvested.



DATA: COMPILED BY BLOOMBERG; THROUGH FEB. 17

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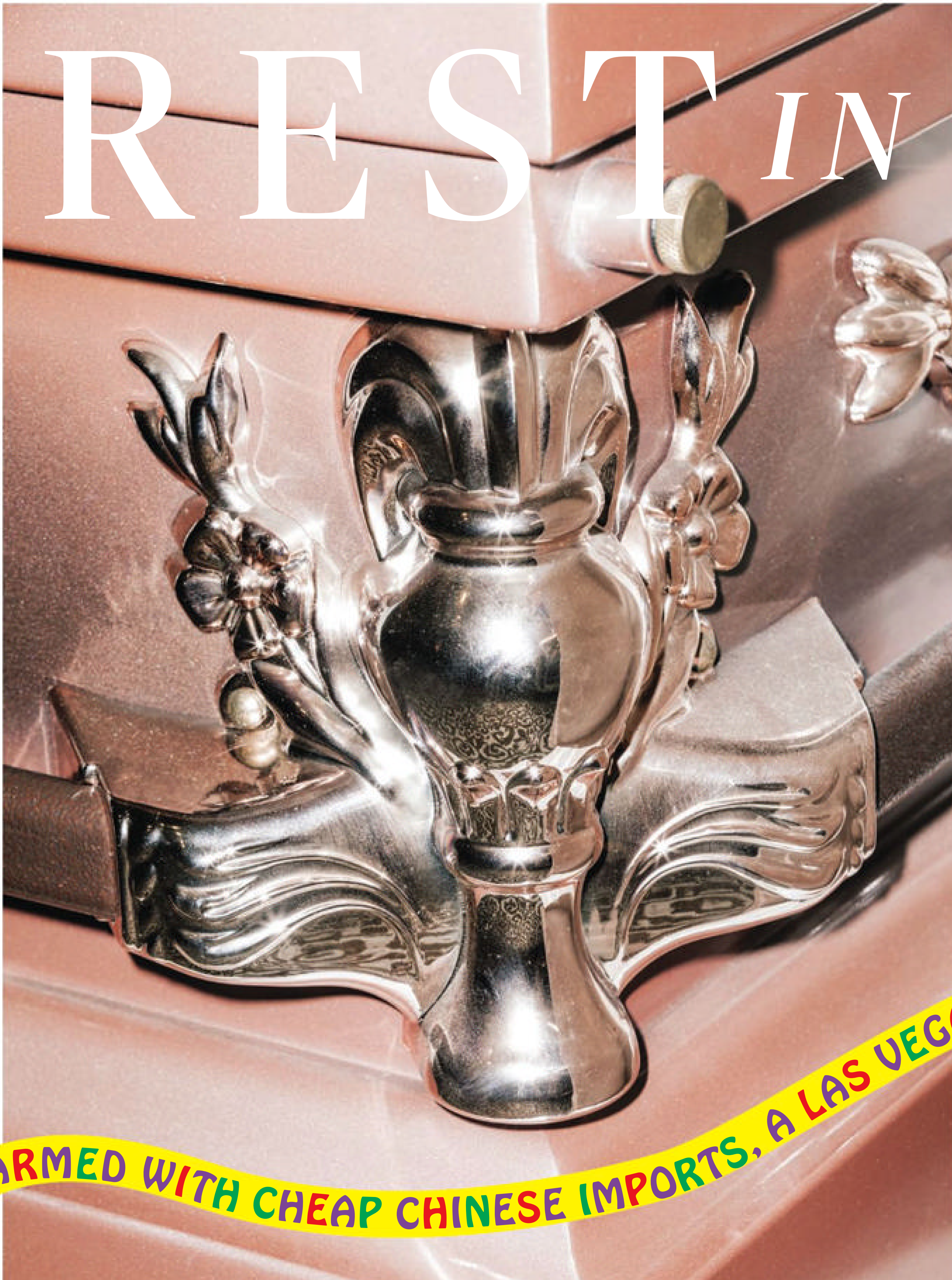

ARMED WITH CHEAP CHINESE IMPORTS, A LAS VEGAS

PEACE FOR LESS

ENTREPRENEUR TAKES ON BIG CASKET

BY DAVID GAUVEY HERBERT
PHOTOGRAPHS *BY* JULIAN BERMAN

When Jim Malamas finally sat down to dinner with Steve Tzelalis, he knew his cousin was tired. Tzelalis had been up since 4 in the morning and working his shift at a Las Vegas strip club since 6. Haggling with liquor distributors. Gladhanding the daytime crowd. Auditioning talent. Malamas knew he would be in no mood to drive a casket into the middle of the Mojave Desert.

A peppy Greek Canadian with heavy bags under his eyes, Malamas, 58, owned a local company called ACE Funeral Products. A buyer in Los Angeles had missed a 4 p.m. deadline to have a casket shipped by FedEx. Meeting him halfway, in Barstow, Calif., would be a five-hour schlep. But ACE was young and feisty—one David up against the Goliath that has controlled the industry for decades. If a body needed a box, ACE was going to deliver. "This is a customer service business," Malamas told Tzelalis that night, sometime in the middle of 2009. "Sometimes you gotta suck it up."

Malamas and Tzelalis tucked into their food as they waited for the buyer to call and arrange the meeting, and when he did, Malamas signaled for the check. Tzelalis sighed, his belly full. "I'm coming with you," he said.

The company truck, an old U-Haul that Malamas had retrofitted with load-bearing shelves, sat in the restaurant lot. In the back lay a knockoff of the most popular casket for women in North America: the Primrose, made of 18-gauge steel with a crepe interior. The three major casket manufacturers that dominate the market sold the U.S.-made item for as much as $1,500. Malamas built his almost identical model in China, advertised it online, and charged $408. It was, after all, only a casket; it just had to look good for one day.

As the cousins turned south onto Interstate 15, night fell on Vegas. Casino lights pulsed on the Strip. At the edge of town, they passed the Silverton and the Grandview—buffet specials and $2 blackjack. And then: desert.

Tzelalis drove, and Malamas strained to be heard over the engine, which topped out at 55 mph. Revenue was doubling annually. How could they sustain that growth? What was ACE's next move? As they got close to the rendezvous, Malamas's phone rang every few mile markers.

Tzelalis pulled off at Exit 198 and cut the engine on the north side of the freeway. There was nothing but a few derelict signs and a shuttered gas station. The only light came from the stream of headlights on I-15.

The buyer pulled up in a Chevy Suburban. His name was John Kirk, the president of White & Day Mortuaries, a string of five L.A. funeral parlors. He had brought some extra muscle. Even without a body, a Primrose weighs 180 pounds. The four men shook hands. Tzelalis chuckled.

"What are you laughing for?" Kirk asked.

"If California Highway Patrol comes by," Tzelalis said, "they're gonna think there's some shenanigans goin' on."

After the men transferred the casket, they snapped a group photo, shook hands again, and returned home—the buyer to his corpse in cold storage and a funeral the next morning, and Malamas to his base of operations and his war on Big Casket.

By importing from China, Malamas has followed a well-worn outsourcing playbook that's upended markets for American-made goods from electronics to bedroom furniture. Working with four factories outside Shanghai, he imports 40-foot containers holding 64 caskets apiece and sells them to funeral homes and regional distributors for a fraction of the price. There is plenty of potential: In the U.S., caskets are a $1.6 billion business.

And yet since that night in the Mojave, Chinese casket imports haven't gone as planned—for Malamas or anyone else. His revenue has stumbled. Where almost every other American manufacturer has failed to keep Chinese exports at bay, the casket industry has succeeded. Through aggressive litigation against importers, xenophobic admonitions to consumers, and good old-fashioned palm-greasing of funeral directors, Big Casket has made sure that 9 out of 10 Americans go into the ground in boxes made in the USA.

"The funeral industry has had a goddamn easy ride for the last 150 years," says Joshua Slocum, the co-author of *Final Rights: Reclaiming the American Way of Death* and executive director of the Funeral Consumers Alliance, a Vermont nonprofit. "Why aren't as many caskets imported as Chinese dishware? It defies all known rules of supply and demand."

Salmon and chinchillas brought Malamas to caskets. A Canadian citizen, he ran a fishery outside Vancouver in the late 1980s. His wife's relatives had a chinchilla farm, and one year he accompanied them to China to explore investment opportunities. One morning in Heilongjiang province, Malamas says, he woke up to find a crowd of budding capitalists camped outside his hotel room—toilet seats, umbrellas, and other knickknacks in hand, hoping to impress him and gain entree to Western markets.

Malamas sold the salmon farm soon after that trip, and he's been importing from the Middle Kingdom ever since: flashlights, playing cards, even stadium seating for the Dallas Stars hockey team and the 2010 Vancouver Olympics. He spent years riding the wave of Chinese imports that was drowning America's manufacturing base.

In 2005, Malamas bet on caskets to become the next American industry felled by China. The field's Big Three companies—Hillenbrand, Matthews International, and Aurora Casket—controlled 70 percent of the market. Hillenbrand, more commonly referred to by its subsidiary's name, Batesville, and Matthews are publicly traded, with a combined market cap of $3.8 billion. Aurora was acquired by Kohlberg, a private equity firm in Mt. Kisco, N.Y., in 2012 for an undisclosed sum. Death is expensive: The average funeral costs $6,460, according to the National Funeral Directors Association. A full quarter of that price is the casket. Hillenbrand, Matthews, and Aurora declined to comment for this story, as did the NFDA.

China Daily, an English-language newspaper, hasn't been able to resist the puns—"China Seeks to Bury the Competition" and "A Matter of Grave Import." Dan Isard, president of Foresight Cos., an Arizona-based consultant to funeral homes and cemeteries, predicted early on to the *Cincinnati Business Courier* that by 2025 at least 75 percent of the caskets buried in the U.S. would be produced in China or other countries with cheap labor.

Malamas named his new company American Casket Enterprises, later changed to ACE Funeral Products. He kept overhead to a minimum. He's never had U.S. employees, and he still manages his business with a laptop, iPad, and toll-free hotline that routes directly to his smartphone. Early business was brisk. Revenue in his first quarter of operations, in 2005, was $60,000; it shot to $750,000 the next fiscal year and $3 million in

"WHEN GIVEN *THE* CHOICE, IT'S

Malamas at a client's storage facility in Gardena, Calif. If he finds a minor defect in a casket, he'll often gift it to a needy widow.

2008. Malamas still cackles with delight when he remembers those heady times: "We were taking out a showroom every 10 days. Ha!"

For much of the last century, funeral services were sold like prix fixe meals: Buy a casket and get embalming, transportation, and other services included. Then, in 1972, the Federal Trade Commission began a decade-long investigation into the industry's anticompetitive practices. In 1984 the FTC passed the Funeral Rule, which ended prepackaging and forced funeral homes to provide price sheets and offer services and products a la carte.

The law also requires funeral homes to let consumers bring their own casket at no charge. Malamas was far from the first to spot an opportunity. Online retailers began appearing in the late 1990s, and Costco jumped into the game in 2004, to much media coverage.

The casket business has railed against imports since the earliest days of Internet sales. "The caskets you get online are inferior, yes they are," Pat Lane, then-spokesman for the California Funeral Directors Association, told *Wired* in 1999. "Let's say your next-door neighbor dies, and the family buys a casket online. We put her in the casket, take four steps up the stairs at the ceremony, and Mom falls out the bottom."

In 2005 the Funeral Consumers Alliance filed suit against large funeral home operators and the Big Three casket manufacturers, alleging that the industry had conspired to inflate prices by boycotting and disparaging casket importers and online retailers. A judge denied the suit class-action status, and the FCA settled out of court in 2012.

Even boosters admit Chinese casket imports were initially of low quality. Colors and fabric textures were off. Poorly packaged caskets were damaged on the two-week journey across the Pacific. Malamas's early products sometimes had shoddy paint jobs, with embedded pieces of lint. U.S. manufacturers continue to beat the quality drum today, even as industry analysts say differences are now negligible.

Unlike with other Chinese imports such as smartphones, TVs, and microwaves, there are only so many ways to upsell a customer on a casket. Rubber-sealed caskets, for example, which are implied to be water- and air-resistant, cost more. But their preservative qualities have been called dubious. Federal law requires that funeral homes warn in placards on showroom walls, "There is no scientific or other evidence that any casket with a sealing device will preserve human remains."

To keep business, Big Three reps visit homes, meet families, and buy steak dinners. Funeral directors are often induced to sign nondisclosure agreements in exchange for discounts and goodies, such as the installation of casket showrooms.

Some funeral directors feel a patriotic duty to stick with the Big Three, analysts say. The industry still supports more than 3,300 U.S. workers, according to IBISWorld, an Australian market-research company. But protectionist instincts have their limits. Isard of Foresight Cos. tells the story of a funeral home client in North Carolina. A community built

JUST A BOX WITH A QUILT"

“I CRIED *FOR* SIX MONTHS AFTE

on manufacturing hardwood furniture, the area had itself been devastated by Chinese imports and was struggling with a 12 percent unemployment rate. Isard’s client began carrying Chinese caskets, displaying them on the left of its showroom, with American models on the right. The former were a third to half the price. After six months, 70 percent of families were choosing imported. “When given the choice, it’s just a box with a quilt,” Isard says.

When Malamas entered the market, Big Casket moved quickly to defend its turf. In 2006 a Matthews subsidiary filed suit, alleging that ACE and its Chinese supplier were copying its designs. Matthews also sent letters to funeral homes and distributors, threatening to sue if they continued to buy from Malamas.

As the litigation dragged on, early customers bailed. Malamas had $2 million in legal fees. A judge almost detained him in Texas. Malamas says financial worries led his wife to divorce him.

“It was a nonsense lawsuit,” says Isard, who’s interviewed Malamas on his podcast at FuneralRadio.com. “But it slowed him down. The Big Three made their money back on legal fees many times over,” he says, by keeping in the fold funeral home clients who might have switched to Chinese caskets.

Malamas—whose Twitter bio reads “Never Quit!!!”—got scrappy. In Las Vegas, his first cousin once removed is Pete Eliades, a Greek immigrant turned Sin City legend. “Uncle Pete” owns the city’s Yellow, Checker, and Star taxi companies, the Pro Gun Club in Boulder City, and the Olympic Gardens (OG) strip club where his cousin Tzelalis worked. Eliades draws enough water in Las Vegas to give Malamas a little swagger.

In 2007, Malamas was at a funeral industry trade show in Vegas when a lawyer from Matthews approached. “He

PHOTOGRAPH ILLUSTRATION BY CREDIT TK

R THAT MESS. BUT THEY CAN'T STOP ME. I'M BULLETPROOF"

said, 'You're not supposed to be here,'" Malamas recalls. "He was a big, tall guy! But I said, 'Hey, buddy, we're in Vegas. I make a call, and in five minutes I got two gorillas here that make you look like a midget.'" Malamas laughs. "But I was quivering inside!"

Uncle Pete's strip club had its business-development uses on that trip as well. After staring down the Matthews lawyer, Malamas took more than 30 funeral directors to the OG. "I told 'em, 'First lap dance is on me. Don't go in the VIP room. Don't give anyone your credit card,'" he says.

In 2008, Malamas wooed White & Day Mortuaries—the L.A. chain whose president would later meet Malamas in the desert—away from York Casket, a subsidiary of Matthews. The industry-standard markup rate on caskets is 125 percent, Isard says. It can be far higher on a cheap model from China. White & Day buys the popular Mandarin, a 20-gauge steel unit, from Malamas for $338 and sells it for $2,495, a markup of more than 700 percent, while still charging competitive prices to customers.

Funeral homes, like the casket industry, are contending with the increasing popularity of cremation. The ripening crop of baby boomers, the oldest of whom are now 69, was supposed to be a windfall. Instead, cremation is offsetting those gains. In 1960 fewer than 4 percent of dead Americans were cremated, according to the Cremation Association of North America. In 2012 the figure was 43 percent and is expected to continue rising. Cremations cost less than a third of traditional funerals. At most funeral homes, the priciest urn costs less than the cheapest casket. "U.S. manufacturers have had a lock for a century," says David Nixon, a funeral industry consultant in Illinois. "But they are pricing themselves out of business." For companies such as White & Day, Chinese caskets and their fatter margins are a lifeline.

Distribution remains perhaps Big Casket's greatest defense. Aside from a few large chains, most of the $16 billion funeral home industry comprises mom and pop operations that annually perform about 100 "calls," industry parlance for funeral or cremation events. Most of these businesses are too small to justify buying caskets by the container load. The Big Three, however, deliver single caskets within 24 hours through well-oiled distribution channels. Chinese casket importers have tried to keep up. Place an order by 4 p.m. ET, and Best Price Caskets, a Dallas-based online retailer, will deliver a casket anywhere in the U.S., including Alaska and Hawaii, the next day.

ACE customers have to do more planning: A 40-foot container takes six to eight weeks to travel from factory to funeral home—longer around Chinese holidays. A funeral director needs to do at least 150 calls a year to justify importing a container. White & Day handles about 500 calls a year. To ensure a constant stock of Malamas's goods, the company last year extended a storage shed at its Pacific Crest Cemetery in Redondo Beach, Calif., and rebuilt a larger warehouse after a fire at its funeral home in nearby Gardena. On a recent winter day, the two facilities housed roughly 225 ACE caskets, boxed in cardboard and queued up like giant dominoes, each stamped with MADE IN CHINA and scribbled with their model names and delivery dates: Elegance 1/23; Harmony 12/3/14; Tranquility 12/3/14.

ACE eventually prevailed in the lawsuit with Matthews in 2012, and the company's Chinese supplier picked up most of the legal tab. But by then, Malamas's revenue had been cut in half, his clients were spooked, and the business was in shambles. He's since battled back and says his revenue is increasing again. "I cried for six months after that mess," Malamas says. "But they can't stop me. I'm bulletproof."

Meanwhile, the casket industry looks much the same way it did in 2005. Chinese imports are stuck at around 5 percent of the U.S. market, according to trade data and industry analysts. Imports of Chinese-made metal and wood caskets totaled only $119.7 million in 2013. But Big Casket isn't in denial about the realities of global trade. Both Batesville and Matthews have outsourced some manufacturing to Mexico. Isard predicts it's only a matter of time before the Big Three look to China or other cheap locales for their own production needs. If that happens, ACE and other importers will be fighting over the same suppliers.

Malamas says he isn't worried about that yet. On a recent night, he's speeding toward Las Vegas with a Winston casket in his truck bed and a Burger King coffee in hand, plotting his next lines of attack. A friend might open a warehouse in Reno, which would let Malamas crack the Pacific Northwest and Northern California markets. He's also making plans for the day that awaits us all. "It's gonna be a big party," Malamas says about his own funeral. "No cryin'. Just booze and laughs." And, presumably, a Chinese casket. B

PHOTOGRAPH ILLUSTRATION BY CREDIT TK

ACE's merchandise. An ersatz Primrose costs $408, but the original model goes for $1,500.

Are Cred RBS, Standard Chartered and BA terrorist

52

By Paul M. Barrett

Steven Vincent had just left a money exchange in the southern Iraqi city of Basra when a group of men in police uniforms drove up in a white truck and grabbed him and his translator. It was Aug. 2, 2005. Vincent, a freelance American journalist, had reported on the war for two-and-a-half years. British troops occupied Basra, but he operated without an embed arrangement. British and Iraqi authorities later found Vincent on the outskirts of the city shot dead. The Iraqi translator survived.

Three days earlier the *New York Times* had published an op-ed article by Vincent, "Switched Off in Basra," in which he described the infiltration of the local police by Iranian-backed Islamic extremists. "Steven was executed for what he wrote," says his widow, Lisa Ramaci. She's set up a foundation in his name that donates money to the families of Iraqis injured or killed because of their work with U.S. journalists. And Ramaci did something else. In November she joined a lawsuit on behalf of relatives of U.S. soldiers and civilians who've died in Iraq as a result of violence linked to Iranian-backed militias and terrorist groups.

The suit, filed in federal court in Brooklyn, N.Y., seeks hundreds of millions of dollars not from death squads, whose members aren't likely to show up with lawyers in tow. Instead, it targets five of the largest banks in the world: HSBC, Credit Suisse, Barclays, Standard Chartered, and Royal Bank of Scotland. "Defendants," the suit declares, "committed acts of international terrorism." The suit, known as *Freeman v. HSBC*, takes its name from lead plaintiff Charlotte Freeman, whose husband, Brian, an Army captain, died in a Jan. 20, 2007, attack by Iranian-trained militants in Karbala, Iraq.

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This far-fetched-seeming attempt to pin culpability for violent deaths on bankers relies on an intricate theory of causation: The European-based banks have handled hundreds of billions of dollars in international transfers for Iranian financial institutions. The Iranian financial institutions, in turn, have moved money for the Islamic Revolutionary Guard Corps (IRGC), an elite Iranian paramilitary organization, and for Hezbollah, the militant Shia movement based in Lebanon and backed by Iran. The Revolutionary Guard and Hezbollah have trained and armed Shia groups in Iraq that have kidnapped, shot, and blown up Americans, including Vincent and Freeman.

Can the global banking industry be held liable for the detonation of improvised explosive devices and destruction of lives? "It may sound wild-eyed or quixotic, but that's what we're trying to do," says Gary Osen, the New Jersey lawyer who recruited the 230 plaintiffs for *Freeman v. HSBC*.

Osen, 46, seems an unlikely scourge of high finance. His six-lawyer firm in Hackensack lacks the kind of war chest associated with the heavyweights of the asbestos and tobacco bars. He's obviously bright but has a wooden courtroom manner. He wears off-the-rack suits and a Timex watch. "I'm a modest man who has much to be modest about," he says, paraphrasing a famous put-down attributed to Winston Churchill.

The humility is misleading. Only weeks before he filed the HSBC case, Osen won the first-ever jury verdict in a trial seeking to hold a major bank responsible for terrorist violence. Osen convinced a jury in the same Brooklyn federal courthouse that Jordan-based Arab Bank, one of the most prominent financial institutions in the Middle East, transferred money from donors in Saudi Arabia and elsewhere through its branch in New

York and on to backers of Palestinian suicide bombers who killed Americans in two dozen attacks in Israel from 2000 to 2004. This summer a second jury will consider how much Arab Bank must pay—an amount Osen estimates could approach $1 billion. Meanwhile, in other pending terrorism-finance suits, he's won preliminary rounds against the U.K.'s National Westminster Bank and Crédit Lyonnais of France.

Part of what makes Osen effective is his ability to tap other lawyers with deeper pockets. Another advantage is family tradition. Osen learned lawyering from his father, Max, a German immigrant who represented families of Holocaust victims seeking to recover assets stolen by the Nazis.

Skeptics say Osen plays on emotions and cleverly redirects victim anger toward banks he can squeeze for big payouts. He's exploiting anxiety about terrorism, they complain, to dress up what amounts to global ambulance-chasing.

"The plaintiffs' evidence in this case is a mile wide and an inch deep," said defense lawyer Shand Stephens in September after losing the Arab Bank trial. Stephens is a partner at 4,200-attorney DLA Piper, the largest law firm in the world. He denies wrongdoing by his client, as do lawyers for HSBC and the other Europe-based banks named in Osen's suits, and vows to appeal. (*Bloomberg Businessweek* sought comment from representatives of every bank mentioned in this article; most did not respond.)

Osen has gotten as far as he has, according to his detractors, only because courts want to show sympathy for terrorism victims. In a sense that's another way of saying Osen is doing what good lawyers do: capitalize on how jurisprudence evolves to fit the times.

Even compared with other law students at George Washington University in the early 1990s, Osen stood out for his bookishness—"a meticulous researcher," professor Peter Raven-Hansen recalls. Osen intended to seek a staff job on Capitol Hill until the day his mother, Esther, called near graduation time in the spring of 1992. His father, Max, needed Gary's help. The fall of the Berlin Wall in November 1989 opened communist archives containing previously concealed information on Nazi thievery. Max was overwhelmed.

Born in Frankfurt, the elder Osen escaped Hitler in 1937 at the age of 11. He returned to Germany in 1945 as a U.S. soldier and later attended law school on the GI Bill. In second grade, when young Gary's classmates responded to a make-your-own-book assignment with tales of dinosaurs and astronauts, Max's son

Osen: "I'm never bored"

depicted the Nuremberg trials, complete with death sentences for Hitler's top henchmen.

As his father's apprentice in the 1990s, Gary became a world-class authority on the Nazis' "Aryanization" program. Beginning in the late '90s, he won a series of German rulings that have produced hundreds of millions of dollars in restitution from the sale of choice properties in East Berlin confiscated during the war from the Jewish owners of a luxury department-store chain. "You can't give people their relatives' lives back or erase the suffering," Osen says, "but you can make a statement about evil that occurred."

Contingency fees from the reparations cases have helped Osen sustain the small firm he inherited from his father. He lives in New Jersey, where he and his wife raise three children. His utilitarian office in Hackensack could be mistaken for an insurance brokerage, except perhaps for the framed prints of artwork stolen by the Nazis. Osen has no summer place in the Hamptons or private jet. On the positive side, he says, "I'm never bored."

In his neighborhood, everyone knew someone affected by the Sept. 11 attacks. Osen volunteered to do legal chores for a neighbor who lost her husband at the World Trade Center, but he "wanted to do something more broadly impactful."

Osen called his law school mentor, Raven-Hansen. The professor reminded him that the law doesn't provide a remedy for all bad acts, but there was a 1992 statute called the Anti-Terrorism Act that hadn't been thoroughly tested in court. Inspired by the 1985 Palestinian hijacking of the cruise ship *Achille Lauro*, civil provisions of the ATA allow individual terrorism victims to seek triple their damages for "violent acts or acts dangerous to human life." With perpetrators typically difficult to find, some observers had written off the ATA as impractical and largely symbolic. After Sept. 11, that began to change.

In 2002 the U.S. Court of Appeals for the Seventh Circuit in Chicago cleared the way for a suit under the ATA by parents of an American teenager killed in Israel in 1996 by a member of Hamas, the Palestinian movement labeled as terrorist by the U.S. The grieving parents accused two U.S.-based Islamic charities of channeling money to Hamas. The ATA, the appeals court said, "would have little effect if liability were limited to persons who pull the trigger or plant the bomb."

Osen and Raven-Hansen decided to see if the ATA could be stretched even further—to cover not only a charity that funds a terrorist group, but also a bank that allegedly serves as middleman between donors and suicide bombers. But which bank to go after?

Osen's plan took shape after he read about an April 2002 telethon held by the Saudi Committee for the Support of the Intifada Al-Quds. The event raised money for Palestinians affected by—and involved in—the violent uprising then unfolding against Israel. The same month, after a Passover bombing killed 30 Israelis and wounded 140 at a hotel in Netanya, the Israeli military recovered a trove of documents in the West Bank that allegedly linked Amman-based Arab Bank to Hamas payments to families of suicide bombers. Israel made the documents publicly available, and Osen hypothesized that Arab Bank provided the critical link between Saudi donors and the encouragement of suicide bombers.

Next, he needed clients. Mutual friends introduced him to Sarri Singer, a fellow New Jersey native. On June 11, 2003, Singer, living in Israel at the time, sat down in a window seat on Jerusalem bus No. 14. Moments later the bus blew up. The explosion broke her clavicle, punctured both eardrums, and lodged shrapnel in her mouth. The girl sitting next to her was killed, one of 16 fatalities that day. Osen, she says, "made a good argument that the only way to strike back was by seeking money damages from someone."

To augment his client pool and bulk up on legal muscle, Osen allied himself with larger plaintiffs' law firms assembling their own stables of potential terrorism-victim clients. Soon he led a consortium that included Motley Rice, a well-known asbestos and tobacco firm based in Mount Pleasant, S.C., and, as a frontman in court, Tab Turner of North Little Rock, Ark., dean of the vehicle-rollover lawsuit. "Gary's a blue-collar lawyer after my own heart, not one of these boys in the gleaming corporate

PHOTOGRAPH BY LYDO ELISE LE FOR BLOOMBERG BUSINESSWEEK

offices," says Turner. Among them the plaintiffs' lawyers amassed a client list of Americans killed or wounded in Israel and their relatives—120 people in all.

In July 2004, Osen filed suit accusing Arab Bank of "knowingly and purposefully" providing Hamas with financial services. Among dozens of alleged terrorist customers, the complaint identified 18 Hamas leaders. Over a period of five years, the Saudi Committee used Arab Bank to funnel millions of dollars to the Palestinian cause, according to the suit. Some of that money funded what Osen called a "death and dismemberment benefit plan" under which the bank made payments equivalent to about $5,300 apiece to the families of suicide bombers.

Founded in Jerusalem in 1930, Arab Bank operates a network of 600 branches on five continents. Its legal team at DLA Piper denied that the bank knowingly did business with terrorists. Instead, according to DLA Piper, Arab Bank provided strictly "routine banking services in accordance with applicable laws and regulations in all of the jurisdictions where it operates." Moreover, the defense team pointed out that the bank had at times cooperated with U.S. counterterrorism investigations.

Osen leveraged the evidence he'd gathered by sharing some of it with investigators at the U.S. Department of the Treasury, which launched its own probe. In 2005, a year after Osen filed suit, Arab Bank agreed to a settlement with the department's Financial Crimes Enforcement Network, which had been looking into whether the bank had adequate protections against money laundering and terrorism finance. Without admitting wrongdoing, Arab Bank agreed to pay a $24 million fine and limit activities of its New York branch. But the settlement focusing on the bank's procedural shortcomings, Osen says, "was a far cry from the guilt we wanted to establish."

Judicial attitudes continued to shift in Osen's favor. In 2008 the full Seventh Circuit issued an opinion in the protracted Muslim-charities litigation in Chicago. Written by Judge Richard Posner, it expressed an expansive interpretation of the ATA. Posner, a highly regarded former professor at the University of Chicago, compared donations to Hamas to "giv[ing] a loaded gun to a child"—a vivid metaphor that rippled through the court system. "Upon that single sentence much recent case law has been premised," observes Lanier Saperstein, a lawyer defending Bank of China against terrorism-finance allegations in a separate case. "However, while an admirable rhetorical flourish, the analogy is strained," he adds. "Money, unlike a gun, is not by its nature a dangerous object."

In New York, U.S. District Judge Nina Gershon grew impatient with Arab Bank's insistence that Jordanian and Palestinian bank secrecy rules forbade it from turning over account records Osen demanded via the pretrial discovery process. In July 2010, Gershon issued a draconian ruling: Jurors would be allowed, although not required, to infer from the bank's intransigence that the missing documents corroborated evidence presented in court that it had knowingly financed Hamas.

Seeking the intervention of the U.S. Supreme Court, Arab Bank objected that the Gershon ruling would kill its chances at trial and "threaten the ruin of the single most important financial institution in the Palestinian territories and Jordan if not the entire Middle East." Officials at the U.S. Department of State shared at least some of the bank's alarm, although the Justice and Treasury departments argued that the Obama administration shouldn't take the side of the accused bank. In the end, the administration split the difference. Justice filed a brief that May, warning that the Gershon order "could undermine the United States' vital interest in maintaining close cooperative relationships with Jordan and other key regional partners in the fight against terrorism." But Justice also urged the Supreme Court to reject Arab Bank's plea for pretrial intervention, advice the high court followed.

Hindered by the evidentiary ruling, Arab Bank had a bad time during the trial, which began in Brooklyn in mid-August. Governments, not banks, should decide who's a terrorist, Stephens, the defense lawyer, told jurors. "You wouldn't want to have Google or Facebook or Wal-Mart" deciding "who belongs on a terrorist list," he said in his closing argument on Sept. 18. Turner delivered a characteristically folksy performance, comparing the celebrity of the late Hamas leader and Arab Bank client Sheik Ahmed Yassin to that of pop superstar Jennifer Lopez. Arab Bank's executives, Turner said, "knew what they were supporting." Osen added a stiff coda in which he said, "All of my colleagues here worked for the last 10 years to hold these people accountable." The jury took only two days to return its verdict.

Disdaining the proceedings as "nothing more than a show trial," Arab Bank's lawyers immediately vowed an appeal. "The court," they added, "gagged the bank by excluding many of its witnesses, severely restricting the ability of other witnesses to testify, and precluding all evidence of its innocent state of mind." The bank gagged itself, Osen counters, when it refused to disgorge the records.

Long Shots: Terrorism-finance suits in the U.S. face many obstacles before trial

Linde v. ARAB BANK

- Charges: Services for Hamas affiliates, related to terrorism in Israel, 2000–04
- → Jury verdict for plaintiffs, under appeal

Gill v. ARAB BANK

- Services for Hamas affiliates, related to a shooting on the Israel-Gaza border, 2008
- × Dismissed before trial

Wultz v. BANK OF CHINA

- Money laundering for Hamas and Palestinian Islamic Jihad, 2008
- → Pretrial discovery under way following rejection of bank's motion to dismiss

Rothstein v. UBS

- Services for Iran, related to Hezbollah and Hamas attacks in Israel
- × Dismissal upheld by appellate court

Weiss v. NatWest

- Services for alleged Hamas front in the U.K.
- → Dismissed by district court judge; reinstated by appellate panel

Strauss v. CREDIT LYONNAIS

- Services for alleged Hamas affiliate in France
- → Cleared for trial by district court judge

Osen never saw the battle with Arab Bank as the culmination of his campaign. While that clash unfolded, he opened files on U.S. government investigations of far larger Europe-based financial institutions with operations in New York. The banks he chose to focus on had run afoul of American regulations restricting business with customers in Iran, a U.S.-designated state sponsor of

terrorism. To resolve the probes, the banks agreed to Department of Justice deals known as deferred prosecution agreements. Under the agreements, corporate defendants pay fines, don't dispute they've done wrong, and promise to reform—all with the threat looming of a potential future criminal indictment.

Credit Suisse resolved its sanctions violations with an agreement to pay $536 million in fines in December 2009. Royal Bank of Scotland agreed to $500 million in May 2010; Barclays, $298 million in August 2010; Standard Chartered, $667 million in December 2012; and HSBC, $1.9 billion, also in December 2012. Stuart Gulliver, HSBC Group's chief executive officer, said of the settlement that the bank, Europe's largest, was "profoundly sorry" and accepted "responsibility for our past mistakes."

That wasn't enough for Osen. He'd already begun recruiting a new batch of plaintiffs, including Vincent's parents and widow. The case against the Europe-based multinationals piggybacks on the U.S. sanctions actions and other allegations. The complaint notes that for more than a decade, Washington has blamed Iran for fomenting violence in Iraq. For example, in 2006, Lieutenant General Michael Barbero, then a senior U.S. military official in Iraq, said publicly: "It's irrefutable that Iran is responsible for training, funding, and equipping some of these Shia extremist groups and also providing advanced IED technology to them." The Revolutionary Guard and Hezbollah are the main Iranian-backed forces responsible for supporting anti-American violence in Iraq, according to the State Department's 2006 *Country Reports on Terrorism* and subsequent U.S. determinations.

Who finances the IRGC and Hezbollah? In October 2007 the Treasury Department answered that question, in part, by officially designating Iranian state-controlled Bank Saderat and Bank Melli, the largest bank in Iran, as financiers of terrorism. In particular, Treasury said that from 2002 to 2006, Saderat and Melli had transferred a total of $150 million for the benefit of the IRGC and Hezbollah. And, in a crucial final link, according to Osen's suit, the European banks have all provided financial services to Saderat and/or Melli.

Drawing on the publicly available results of government investigations, the suit provides numerous examples of the defendant European banks allegedly seeking to obscure dealings with the Iranian institutions. In one series of internal memos dating from 2002 through 2006, Barclays employees acknowledged using a method called "cover payments" to "circumvent U.S. legislation" barring business

"You wouldn't want to have Google or facebook or Walmart" deciding "who belongs on a terrorist list"

with Iran, Cuba, and certain other countries. "Moral risk exists if we carry on using cover payments, but that is what the industry does," an April 2005 Barclays memo stated. "IMHO"—in my humble opinion—the memo continued, "we should carry on using cover payments and accept that there is a risk of these being used on occasion to hide true beneficiaries (who may or may not be sanctioned individuals or entities)."

At Credit Suisse, an e-mail circulated in May 2005 explained: "No reference to Iran may be made in the field reserved for information on the ordering party (no Iranian telephone numbers either)." In an October 2006 e-mail, the head of Standard Chartered Bank's New York operation warned an executive at the home office in London that continuing to do business covertly with counterparties in Tehran potentially exposed "management in U.S. and London (e.g. you and I) and elsewhere to personal reputational damages and/or serious criminal liability." The Standard Chartered executive in London allegedly responded: "You f---ing Americans, who are you to tell us, the rest of the world, that we're not going to deal with the Iranians?"

Osen intends to be that American. "The government [sanctions-violation] settlements don't connect the dots between the evidence of widespread concealment of the defendants' dealings with Iranian banks and the activities of IRGC and Hezbollah financed by those Iranian banks," he says. "We're connecting the dots."

Reminded that the dots enumerated in his legal papers don't actually link Barclays or HSBC or Credit Suisse to any terrorist groups, Osen responds: "We don't have to show that particular defendants were the physical conduits for payments to Hezbollah." It's sufficient, he says, that the defendants "took part in an industrywide conspiracy that made the terror financing possible. Moreover, they were deliberately indifferent to the lethal consequences."

The banks all deny Osen's allegations, and more powerful law firms have stepped up to defend them: Cravath, Swaine & Moore for Credit Suisse, Sullivan & Cromwell for Barclays and Standard Chartered, Clifford Chance for Royal Bank of Scotland. "The allegations in the plaintiffs' current complaint fail to state a claim against any" of the five defendants, HSBC's law firm, Mayer Brown, said in a Jan. 13 filing. In an e-mail, Stuart Alderoty, general counsel of HSBC North America, said the bank is "committed to combatting financial crime and has taken strict steps to keep bad actors out of the global financial system. We intend to defend ourselves vigorously against these legal claims." (In a separate case, Swiss authorities on Feb. 18 searched HSBC's private bank offices in Geneva as part of a money-laundering probe.)

Osen notes that he has a structural advantage. In their government settlements, the banks have already acknowledged misconduct. The banks, Osen says, "have to defend themselves in the context of Americans losing their lives." Raven-Hansen, his former law professor and now co-counsel, frames the bigger picture: Through the ATA, he says, Congress "intended to impose liability 'at any point along the causal chain of terrorism,' including the flow of money. Banks need to think twice about their role in that causal chain. Civil liability would make them think twice." Ⓑ

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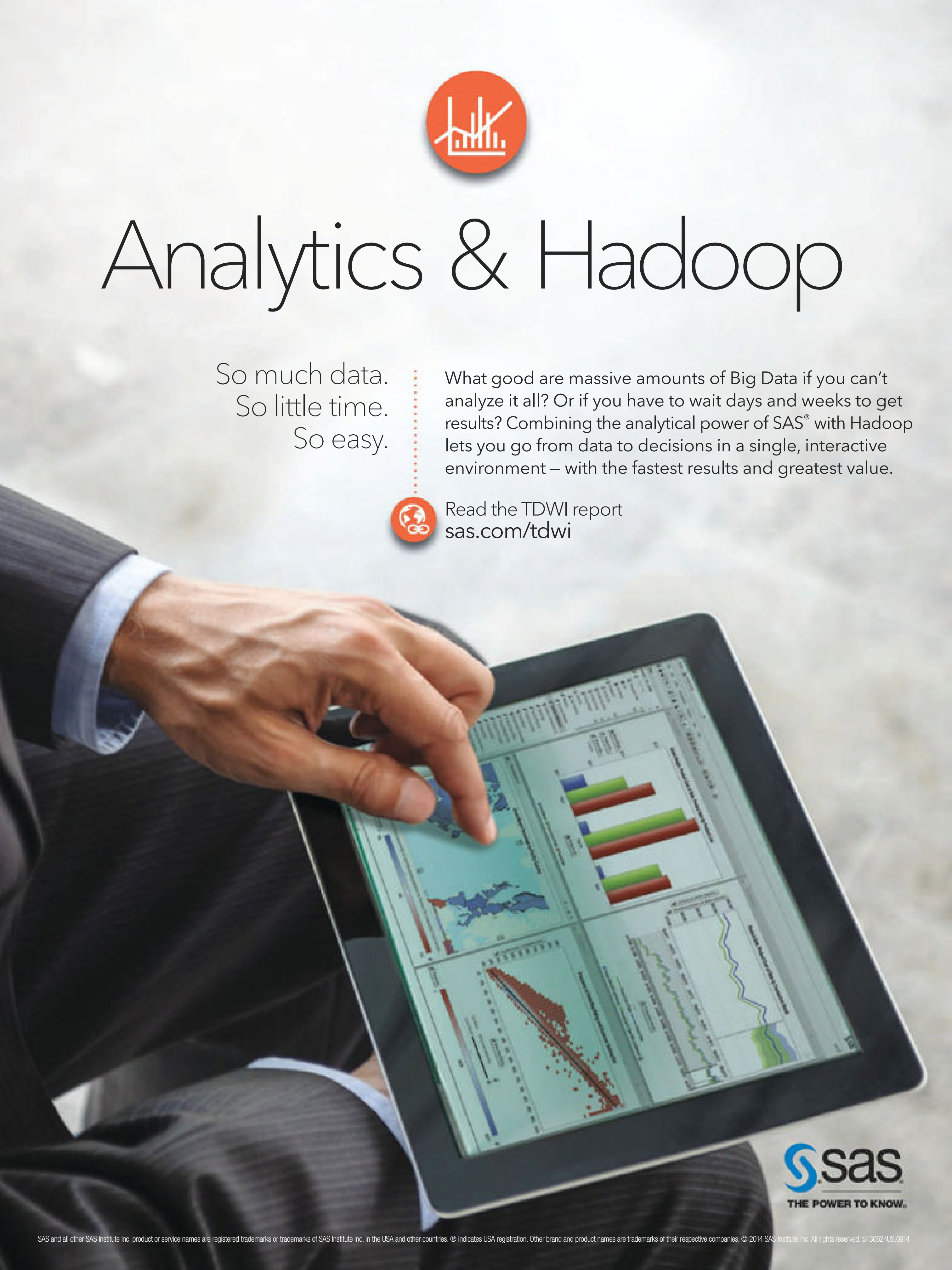

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THE CAT CONTENT WARS

A NEW MAGAZINE TRIES TO BRING FELINE OBSESSION OFFLINE

BY LAURA BENNETT

Photographs by Peter Bohler

It's bring-your-pet-to-work Friday at the Irvine (Calif.) headquarters of *Catster* and *Dogster* magazines. Snicker the goldendoodle is sniffing a corner. A black lab named Carl strides through the newsroom. But the star today is Buster, a speckled rescue cat chosen to model for a "Catify Your Cubicle" photo shoot. Buster blinks at the flashbulbs from atop his catified set, surrounded by a cat mug, a cat calendar, and a plaque that says, "You had me at meow." The idea, editorial director Melissa Kauffman explains, is to portray cat owners as young and fun. "If Taylor Swift can be a cat lady, so can anyone," she says.

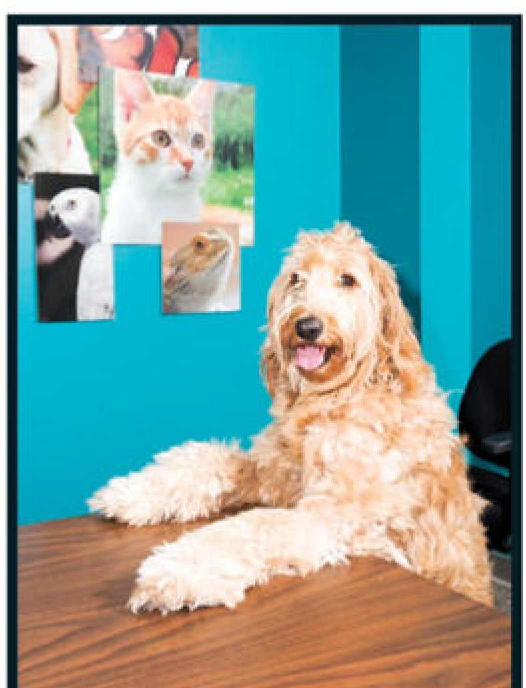
For two decades, this had been the office of *Cat Fancy* and *Dog Fancy* magazines. Now the oldest pet titles in the country are in the midst of a rebirth. In 2013, BowTie, the company that owned them, was bought by I-5 Publishing for about $10 million. (The sale included 15 additional magazines, including *Horse Illustrated* and *Reptiles*.) I-5's co-founders, Mark Harris and David Fry, originally planned to reinvigorate the existing cat and dog titles. That changed course last July, when they discovered two peppy websites called Catster.com and Dogster.com. They bought those, too, for an undisclosed amount from digital content company Say Media. In December, Harris and Fry, who have no history in pet publishing, announced they had a new vision: I-5 would launch *Catster* and *Dogster* in print and kill off the *Fancy* titles for good.

From its first issue, published in 1965, *Cat Fancy* relayed news about pet health care and cat shows in genial schoolmarmish detail, with headlines like "9 Steps to Successfully Brushing Kitty's Teeth." Its covers featured purebred Persians and slim Abyssinians stretching their necks. The vibe veered on snobby, with a focus on breeding and pedigree. They were aimed, Fry says, "at the 1 Percenters of pet owners." Unlike actual 1 Percenters, the magazines had begun to flounder. "The trend lines were not good for many years," says an I-5 spokesperson. Circulation for both titles combined was stuck at about 160,000 readers.

Kahn, a digital editor

The Catster and Dogster websites, meanwhile, were blowing up. Since their launch in 2004, they'd grown to a combined 3 million readers a month, according to Say Media, and had a community of more than 1 million registered users. They published stories such as "Cats Liking Ducks Is Apparently a Thing" and personal essays like "I Met Grumpy Cat, and Now My Life Is Complete!" referring to the feline with the sour mien who went viral and made her owner rich. Grumpy Cat, Fry says, is exactly the kind of strange-looking beast that would have been forbidden in *Cat Fancy*. I-5's pet magazines, Harris and Fry decided, should be for mutts and mongrels, for rescue cats and lolcats. This is, after all, a bold new age of pet obsession.

"*CAT FANCY* USED TO BE THE ONLY PLACE YOU COULD GO TO GET THE END-ALL AND BE-ALL ON CUTE CATS"



The sum Americans spend on their animals has almost quadrupled over the past two decades, to an estimated $58.81 billion in 2014, as measured by the American Pet Products Association. More than 60 percent of households in the country have at least one creature living with them, according to the Humane Society of the United States. "People are nuts about their animals today," Fry says.

Felines, in particular, have a thriving fan base. They've become the avatar of the Internet, the anthropomorphized center of its weird, neurotic heart. According to a recent study by Friskies, cats drive almost 15 percent of all Web traffic. There are about 30 million Google searches per month for "cat." And Catster.com's competition is fierce: The pioneering kitty-humor website icanhas.cheezburger.com gets about 1.5 million visitors a month, according to Alexa Internet, a Web research firm. "*Cat Fancy* used to be the only place you could go to get the end-all and be-all on cute cats," says

PHOTOGRAPHS BY PETER BOHLER FOR BLOOMBERG BUSINESSWEEK

FUTURE COVER STARS

The nine most in-demand Internet animals —Julie Ma

Japanese star **Maru the Cat** has had three books published about her

Tuna the Chiweenie has 1.1 million Instagram followers

Maddie the Coonhound "invented" MaddieCam, a canine camera app

Grumpy Cat is worth about $1 million

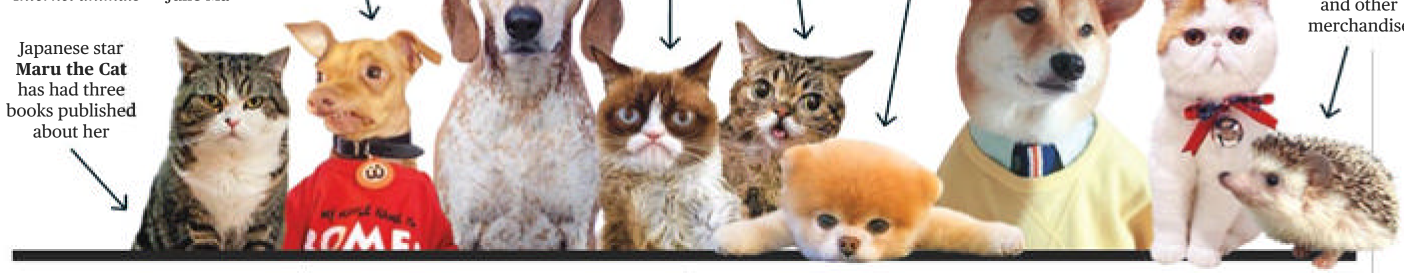
After she starred in a PETA campaign, **Lil Bub** raised $200,000 for animals in need

In 2012, **Boo** was named the official "pet liaison" for Virgin America

Estimated monthly income for **Menswear Dog**: $15,000

Snoopy the Cat modeled in Wonderful Pistachios ads in China

Biddy the Hedgehog sells mugs, phone cases, and other merchandise



Ben Lashes, the agent of Grumpy Cat. "Now everybody has to compete with the BuzzFeeds of the world. Even CNN does stories on Internet cats."

After I-5 merged Catster and Dogster with *Cat Fancy*, some magazine employees lost their jobs. The relationship between the two staffs has occasionally been tense. One day in December the teams gathered to discuss whether to cover a news story in which a family had locked themselves in a bedroom because their cat was attacking them. "The kid had kicked the cat," says Janine Kahn, the new magazines' executive editorial director for digital. "And the *Cat Fancy* people said, 'We don't want to run this story, because we don't talk about it when someone mistreats a cat.' " The Catster people eventually won out. "I was, like, it's news," Kahn says.

Kahn is, in most ways, the reader I-5 wants. She's a 30-year-old University of Southern California grad with statement glasses and arty tattoos—four of which feature her Italian greyhound, Mr. Moxie. "*Cat Fancy* wasn't something I subscribed to," she says. "I just assumed it wasn't for me." While the average reader of *Cat Fancy* was a woman in her late 40s with an income of $50,000, according to Fry, the average Catster.com reader is a 35-year-old female with a household income of about $100,000.

I-5 is shooting for Catster to reach 200,000 print readers by the end of 2015. To get there, it will have to retain most of *Cat Fancy*'s base. *Cat Fancy* and *Dog Fancy* were both monthlies, but *Catster* and *Dogster* will alternate months. A six-issue subscription to one of the magazines costs $24.95. They'll have higher quality paper, binding, and photography—which I-5 hopes will attract more advertisers, too. This spring, they'll be sold on newsstands at national chains such as Barnes & Noble and Walmart.

Inside each issue, there will be pets posing on city streets, like the street-style photographs in mainstream fashion magazines, and plenty of first-person adventure stories. One feature is about driving up the California coast to visit three cat cafes in three days. "I feel like we already had the Middle America market cornered," Kahn says. "So I'm definitely interested in trying to reach the urban set."

The new staff has little in common with *Cat Fancy*'s audience. Kauffman, the editorial director, has blunt-cut blond hair and pink earrings and previously worked at *Bird Talk* magazine before overseeing digital for all I-5 brands. She lives across the country, in Charlotte, with her husband, two parrots, and two mixed hounds.

One concern, she says, is ensuring the new *Catster* feels "authoritative enough" to appeal to former readers. For a touch of gravitas, Susan Logan, the longtime *Cat Fancy* editor whom Kauffman replaced, was kept on as a freelance writer. (Her first piece is a how-to guide for the allergic person who lives with cats.) "I think the biggest difference will be the tone—from more serious, like *Time* magazine, to more fun, like Internet cats themselves," Logan says.

Back in the office, after the staff finishes the "Catify Your Cubicle" shoot, they meet to discuss the first issue of *Catster*, which comes out in March. In one room, two cats sitting on a desk chair look at a computer screen so intensely they could be working on a spreadsheet. Pinned on a wall in the conference room are mock-ups of the first issue of *Dogster*—playful snaps of dogs in top hats and tiny sombreros. Kauffman's face appears via Google Hangouts on a large, wall-mounted screen as seven staffers gather around. "Let's talk about some ideas that could be tweaked to go from online to print," she begins.

"Wedding announcements featuring cats?" one editor offers.

"Pictures of kittens trying to look like grown-up cats?" another calls out.

"Those photos of adults re-creating childhood photos are always on Reddit," Kauffman suggests. "We could do a twist on that." An appreciative "ooooh" moves through the room. "Snicker!" Kauffman calls from the screen. "Bark if you don't agree." B

TOP PHOTOS: INSTAGRAM

CLEAN SLATE

Scruff is now fair game at the office, "but we're seeing more guys that are clean-shaven," says San Diego dermatologist Jeffrey Benabio. For those joining in, here are the tools you'll need.
By Katie Chang

1. Remington Smart-Edge Shaver
$129.99; remingtonproducts.com
Most electric razors use rotary or foil blades; this employs both simultaneously for a closer cut in just one pass. (OK, maybe two.) A digital display tells you how many minutes of battery life remain.

2. Harry's Jimmy Chin Shave Set
$20; harrys.com
The "Teton green" handle is part of a limited-edition, boldly colored set, inspired by the adventure photographer Jimmy Chin. Harry's, an online startup, sends two five-blade heads and shave gel along with it.

3. Dove Men+Care Pro-Moisture Shave Cream
$5.99; target.com
In colder weather, shave creams hydrate better than their gel counterparts. This one isn't too greasy, plus it barely has a scent; it's good if you're worried about irritating your skin.

4. Baxter of California Shave Tonic
$15; baxterofcalifornia.com
Fake the barbershop at home: Moisten a face towel with this spray, then press it against your mug for a minute. Eucalyptus and menthol oil open pores to help hair come off smoothly.

5. Nivea Men Sensitive Cooling Post Shave Balm
$6.59; drugstore.com
After-shave may seem like an annoying final step, but the ingredients in this one, including chamomile and seaweed, help reduce inflammation and redness. Try it if razors tend to ravage your neck.

6. Lab Series Age Rescue + Water-Charged Gel Cream
$50; labseries.com
Shaving basically removes a layer of skin, so moisturizing afterward is a good call. Look for a water-based, oil-free lotion that won't clog pores.

7. Gillette 2-in-1 Shave Gel Plus Skin Care
$4.99; target.com
This shave gel, after-shave, and moisturizer in one is meant to free up time in the morning. The packaging has been redesigned to include a dispenser that resists rust and won't clog.

PHOTOGRAPH BY TRAVIS RATHBONE FOR BLOOMBERG BUSINESSWEEK

WORK FROM A STRANGER'S HOUSE

Lessons in efficiency from a Scandinavian startup. By Claire Suddath

In a Stockholm apartment, two people sit at a blond wood dining table, tapping away at their laptops. Two more sit at a similar table in the kitchen. One man reclines with his laptop in a chair, his feet resting on a small ottoman. The atmosphere is cozy, with a cluttered bookshelf and a fresh pot of coffee. It looks like an Ikea catalog, but it's not, and none of these people live in the apartment. They're just using it as their office as part of a co-working movement called Hoffice.

Hoffice—home, office, get it?—is the creation of Christofer Franzen, 35, a Swedish psychologist who studies how people can work more efficiently. Last year, after finishing his master's thesis, "he was tired of working in cafes and had this idea: What if my friends and I got together to work?" says Gosta Tingstrom, 52, a friend of Franzen's who works as a business consultant. Neither has an office, so they gathered some other friends and started working out of one another's homes—for free.

For a year, Hoffice remained an informal experiment. "Then last fall there was a snowball effect. Strangers started showing up," Tingstrom says. Most heard about it through word of mouth; a few wanted to start their own branches. Hoffice now has 13 groups spread across countries including Canada, Denmark, and France. It's also working with people as far away as China and Turkey to help them set up a dozen more.

The co-founders teach every Hoffice the same set of productivity principles. Members, of which there are no more than 10 or so at a time, divide their 9-to-5 workday into 45-minute increments, with 15-minute communal breaks to play games or run around outside. Several studies, most notably a 1993 American Psychological Association survey of violinists, have found that people get more done when they work in short bursts.

> **"IT'S LIKE A BIG STUDY HALL, BUT WITHOUT THE HIGH SCHOOL TEACHER"**

Before each 45-minute session, Hoffice workers tell the room what they hope to accomplish—finish a spreadsheet, say, or track down a client. Later they reveal whether they succeeded. "We believe that makes you more committed to do what you want to do," Tingstrom says. "It also holds you accountable—if a goal seems too lofty, Hoffice workers help the person come up with something realistic." Halfway through, they all take an hour-plus lunch break. The host is reimbursed for groceries, which is the only part that currently costs money.

Each offshoot has its own personality. One in Sweden—Doffice, for "distance office"—lets people Skype in. A Toronto host collected a fee of $5 until the founders asked her to stop. "I've never heard of a concept like this before, but it's fascinating," says Teresa Amabile, a research director at Harvard Business School who studies how people work. "It's like a big study hall, but without the high school teacher standing over you."

There are no Hoffices in the U.S. yet, but people in Boston and Philadelphia are working on it. According to the U.S. Census Bureau, the number of Americans who work primarily from home rose 38 percent over the past 20 years and now stands at about 7 percent of all employees, or 10 million people. There's also been a boom in co-working spaces: The Commercial Real Estate Development Association says only one such enterprise existed in the U.S. in 2005. By 2013 there were 781. The majority of these are for-profit, like Santa Cruz (Calif.)'s NextSpace, which charges up to $1,300 a month. The Hoffice folks hate comparisons to them.

Most people who use Hoffice are self-employed. Some have just started their own companies and hope to eventually have their own office, while others are freelancers who are sick of their own apartments. One man was a baker; he made cakes in a Hoffice kitchen. "It was mind-blowing how much work I got done," says Andreas Wolf, 27, an urban planner in Copenhagen. "I tried different systems and to-do list apps to give myself structure, but they never worked."

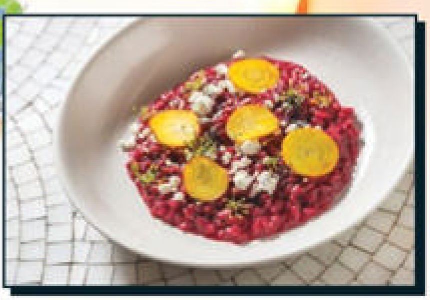
For now all Hoffices take place in someone's residence, though Wolf says he's thinking about renting a cheap space and making Copenhagen home to the first permanent offshoot. Of course, then it would just be like any other office. Ⓑ

ILLUSTRATION BY SAM ISLAND

Long Live the Power Lunch

Dump your sad desk salad and treat a client or colleague to a great meal. By Sierra Tishgart

The beet risotto at **Little Park** is topped with golden beets, dill flowers, and goat cheese



New York

Swanky

Zuma

This hip London-based restaurant, with additional spots in Dubai, Hong Kong, and Abu Dhabi, opened its midtown Manhattan outpost in January. The dark two-story space includes a sushi bar, a *robata* grill serving an excellent rice hot pot with mushrooms ($19), and an extensive sake cellar. Come with potential clients, and expect a scene: Kim Kardashian and Gwyneth Paltrow are two of Zuma's many famous fans. *261 Madison Ave., zumarestaurant.com*

Laid-back

Little Park

Chef Andrew Carmellini's newest restaurant, inside Tribeca's Smyth hotel since November, is a quick jaunt from the media and finance hub developing around One World Trade Center. In the sleek, spacious room, you'll enjoy a veggie-focused menu of crispy Brussels sprouts ($15), celery-root schnitzel ($14), and standout desserts such as cinnamon-toast ice cream ($8)–a great treat to celebrate a deal. *85 West Broadway, littlepark.com*

London

Chiltern Firehouse

The best tables here often come with sightings of Tony Blair, Bono, or Kate Moss. Good luck getting dinner reservations, though—they're some of the toughest to score in the world. You'll have a better shot at lunch, especially during off-peak hours, so plan in advance and bring a boss you want to impress. The food alone is worth the effort. Order the crispy duck legs ($26) by Michelin-starred chef Nuno Mendes. *1 Chiltern St., chilternfirehouse.com*

Fischer's Restaurant

The latest from restaurateurs Chris Corbin and Jeremy King is this update of a 20th century Viennese cafe, with deco-inspired tiles, a stunning station clock, and waiters in waistcoats. It's in the chic neighborhood of Marylebone, so expect to eavesdrop on diners who have the luxury of taking an extended break as they enjoy affordable Austrian cuisine. Opt for chicken schnitzel ($14.50) and the apple-and-cinnamon strudel ($7.50). *50 Marylebone High Street, fischers.co.uk*

Los Angeles

The Gadarene Swine

In September chef Phillip Frankland Lee opened this tiny, vegetarian Studio City establishment, which is a 10-minute drive from Universal, Walt Disney, and Warner Bros. studios. The power move is to order his $85 tasting menu—10 courses of whatever's in season—but a la carte dishes such as roasted mushrooms with burned sweet potato ($17) have a lighter touch. The room resembles a monastery, so it's fitting for confidential conversations. *11266 Ventura Blvd., thegadareneswine.com*

Gjusta

The team behind the Venice eatery Gjelina opened this spinoff bakery nearby last fall. In addition to pastries, it's got a smoked-fish counter, a sandwich station featuring delicious housemade bread, and a coffee bar stocked with an array of nut milks. Go here with out-of-town guests, then take your feast of falafel sandwiches ($13) to the beachfront, where you can spy on surfers and L.A. actor types. *320 Sunset Ave., gjusta.com*

Chicago

The Allis

Chicago got its own Soho House club last summer, complete with this nonmembers' lounge in the lobby. With crystal chandeliers, leather banquettes, and an energetic atmosphere, it's a nice place for executives to network. The lunch menu focuses on classics such as kale Caesar salad ($12) and onion soup with Gruyère ($8), though there's also an afternoon tea service ($24 for finger sandwiches and other pastries) if you head in after 2 p.m. *113-125 N. Green St., theallis.com*

Oak + Char

Rising chef Joseph Heppe is making "modern Midwestern" food in a rustic space with leather stools and charred-wood décor. Mostly, he uses an open fire and clay pots to create hearty fare; don't miss the Cuban sandwich ($13), with braised pork, prosciutto cotto, and bourbon pickles. The food is plenty heavy, so consider clearing your afternoon schedule. If you do, try one of the barrel-aged cocktails, too. *217 W. Huron St., oakandchar.com*

Philadelphia

Juniper Commons

Kevin Sbraga's third Philly joint, which opened in December, pays homage to the 1980s: The menu includes American steakhouse mainstays such as peel-and-eat shrimp cocktail ($14), fried crab cakes ($23), and stuffed manicotti ($16). A clubby dining room follows suit, with newspaper as wallpaper and lots of retro plaid. Show up with co-workers in your best suits, flaunt your business cards, and channel Patrick Bateman for an afternoon. *521 S. Broad St., sbragadining.com*

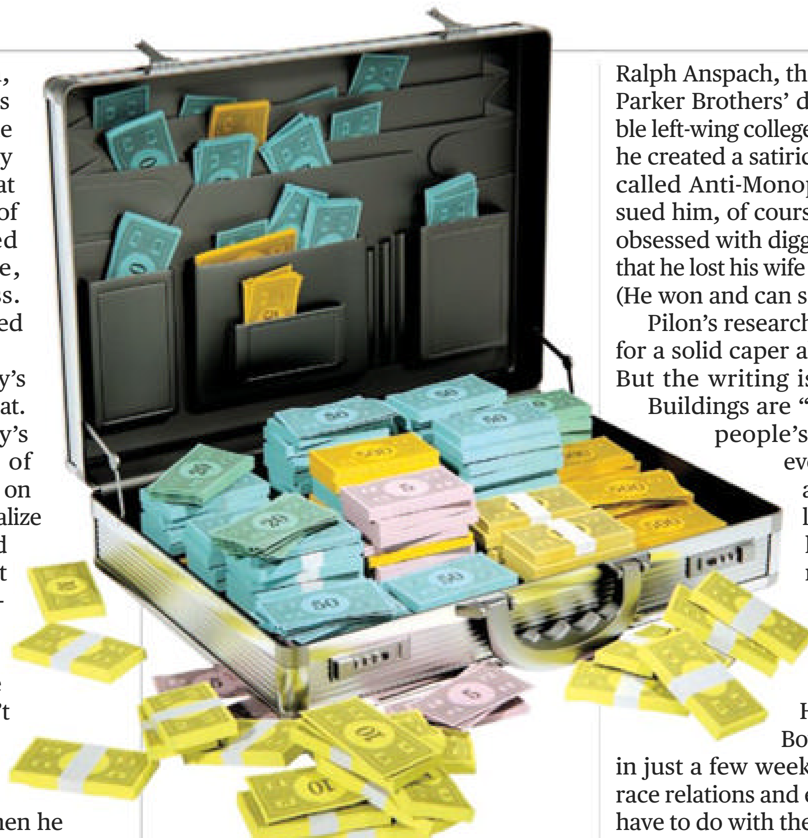
Dizengoff

Mike Solomonov makes what is arguably the best hummus in the country. When Dizengoff, his fast-casual Israeli cafe in bustling Rittenhouse Square, opened in August, it was so popular it would often run out of food by the afternoon. It's since calmed down considerably. The setting is fun—complete with a counter and picnic tables—for holding informal brainstorms or getting to know new colleagues. *1625 Samson St., dizengoffphilly.com*

PHOTOGRAPH BY VAN ROBINSON FOR BLOOMBERG BUSINESSWEEK; DISH: NOAH FECKS

STEALING MONOPOLY

The scandalous history of a boring board game. By Devin Leonard



In the Great Depression, when thousands of banks failed, Americans became enthralled with financially themed board games that let them spend fistfuls of fake cash. They played Easy Money, Finance, Inflation, and Big Business. When Monopoly was released in 1935, it trounced them all.

Parker Brothers, Monopoly's manufacturer, made sure of that. Robert Barton, the company's president and son-in-law of founder George Parker, relied on cash and legal threats to neutralize competitors. The company had tried unsuccessfully to profit from the tiddlywinks and Ping-Pong crazes around the turn of the century, and Barton was determined not to relive those failures. He himself didn't care much for Monopoly–he thought it had too many rules and took too long. But he became interested when he learned of the success of similar games. Monopoly was soon selling almost 2 million $2 games a year.

This quest for dominance is unearthed in Mary Pilon's book, *The Monopolists: Obsession, Fury, and the Scandal Behind the World's Favorite Board Game*. As a reporter at the *Wall Street Journal* in the Aughts, Pilon discovered that Parker Brothers had publicized the tale that Monopoly was created by Charles Darrow, a down-on-his-luck Philadelphian, even though Barton knew full well that others–and one woman in particular–deserved the credit.

Elizabeth Magie, an early feminist writer, had made the virtually identical Landlord's Game three decades prior. Her goal wasn't to promote capitalistic greed; she wanted to further the 19th century social activist Henry George's theory that government spending should be funded by a tax on real estate. Still, Parker Brothers was concerned enough about the similarities between her game and Darrow's knockoff that it purchased the rights to the Landlord Game for $500, with no residuals.

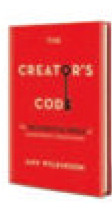
Much of Pilon's story focuses on Ralph Anspach, the man who discovered Parker Brothers' deception. As an irascible left-wing college professor in the 1970s, he created a satirical version of the game called Anti-Monopoly. Parker Brothers sued him, of course. Then he became so obsessed with digging up dirt on his rival that he lost his wife and almost went broke. (He won and can sell Anti-Monopoly.)

Pilon's research is deep, and it makes for a solid caper about corporate greed. But the writing isn't original enough: Buildings are "fortresslike." Famous people's faces are "plastered everywhere." Economies, alas, head "south." She lards her narrative with hackneyed historical references, like this one: "It was March 1935. Darrow had just missed the race riots uptown in Harlem, and the Dust Bowl would hit Oklahoma in just a few weeks." It's not clear what race relations and environmental disaster have to do with the board game business. Pilon could have easily mentioned that Elvis Presley was born that Jan. 8.

The book will probably still appeal to the game's many fans. Monopoly, which Hasbro purchased in the 1990s, is as popular as ever. There have been hundreds of versions worldwide. Recently, fans who bought an 80th anniversary French edition were surprised to find real euros in the box. People obviously still have time to fritter away play money. Pilon, a Monopoly player herself, says the average game doesn't take as long as you might think. Just 90 minutes. Ⓑ

MASTER CLASS

NEVER LOOK BACK



The Creator's Code: The Six Essential Skills of Extraordinary Entrepreneurs
By Amy Wilkinson (Simon & Shuster), $27

Stay curious. "Preschool children ask nearly a hundred questions a day. As we grow older, though, many of us become less inquisitive. **Making the effort to ask questions can sharpen our alertness.**" *p49*

Nostalgia is dangerous. "**Creators willingly abandon a legacy, even a powerful one** that brought them success.... Whether it's a fond memory or a comfortable approach, they refuse to let history hamper their progress." *p69*

Accept failings–and admit to them. "[Be] transparent about shortcomings. **Self-awareness is crucial...** don't hide from failure or hide failure from others... accept small failures as a way to push [yourself]." *p103*

Generosity can cause a chain reaction. "In more fluid modern work environments, individuals can influence and benefit from the cooperation engendered by gifting small goods." *p178*

ILLUSTRATION BY PETER CROWTHER

PHOTOGRAPH BY CHRISTOPHER LEAMAN FOR BLOOMBERG BUSINESSWEEK

JULLIAN WOODS

33, merchant mariner, Brooklyn, N.Y.

Who do you work for?
I can't say.

Intriguing.
I'm an independent contractor on a tugboat that pushes a barge. So we drop deliveries off at different docks. Right now, I'm 30 days on, 30 days off.

Why that coat?
I swear by Carhartt. They're really heavy, tough coats that last forever.

What are the glasses on your shirt for?
They come with a breathing apparatus in case of fire. All deck-hands are firefighters—you can't call the fire department while on a boat.

Where did you get your beanie?
It was in a Birchbox delivery. I subscribe to the monthly boxes. You get great travel-size samples that are customized. I tend to buy a lot of moisturizers.

What's the secret to warmth?
Baggy clothes and layering. So, not being concerned with fashion. I'll wear three different pairs of pants of varying sizes. And Patagonia thermal underwear is pretty great.

My flashlights always break. What kind do you use?
WindFire. They're rugged and waterproof.

What do you wear on your feet?
Insulated, waterproof steel-toe boots and thick wool socks. These boots have tall heels—I was tempted to even myself up with my exceptionally tall girlfriend.

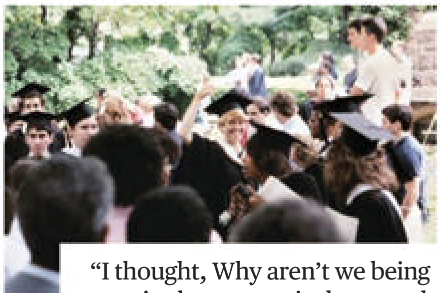
Interview by Arianne Cohen

How Did I Get Here?

WENDY KOPP

CEO and co-founder, Teach for All

At her Princeton graduation



“I thought, Why aren’t we being recruited as aggressively to teach as we are for Wall Street? I became obsessed. I’m so grateful for the undergraduate thesis requirement—mine became the Teach for America idea: to recruit college graduates to teach in public schools.”

EDUCATION

Highland Park High School, Dallas, class of 1985

Princeton University, class of 1989

“I was in overdrive at all moments on all fronts. I was editor of the school paper and did speech and debate. I was valedictorian.”

WORK EXPERIENCE

1990-2013
Founder, CEO, Teach for America

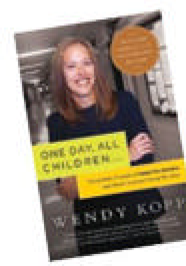
2001
Author, *One Day, All Children*

2007-PRESENT
Co-founder, CEO, Teach for All

2011
Author, *A Chance to Make History: What Works and What Doesn’t in Providing an Excellent Education for All*

2013-PRESENT
Chair of the board, Teach for America

“It took us 10 years to gain a measure of stability—programmatically, politically, and from a management perspective. I really wanted to write down my lessons learned.”

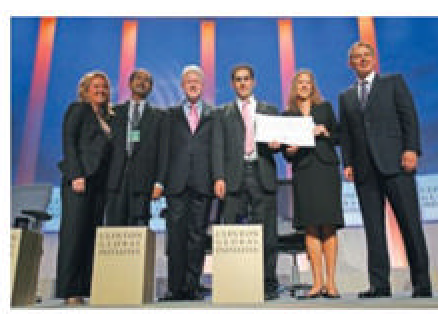


Receiving the John F. Kennedy New Frontier Award, 2004

“I met social entrepreneurs from Lebanon to Chile to China interested in adapting the idea. Brett Wigdortz, who founded Teach First in the U.K., and I started Teach for All. We have 25 partner organizations, 3,000 teachers, and 2,500 alumni.”

“I sent my thesis to 30 randomly selected CEOs of big companies. I was blessed with good timing and naiveté: We got donated office space and a seed grant. One year later we had 489 graduates teaching in six school districts and $2.5 million in funding.”

“I passed the baton to two co-CEOs who really wanted to work together. It’s been great.”



With Wigdortz (third from right) in 2007

Kopp with co-CEOs Matt Kramer and Elisa Villanueva Beard

“We’ve doubled in scale in the past five years, to 10,600 teachers, with more than 85 percent of alumni working full time in mission-related endeavors.”

LIFE LESSONS

1. “Get up early. Time and energy take care of a lot of things.” **2.** “Cultivating leadership is always the core of the solution.” **3.** “The one thing you can control is how hard you work. I tell my four kids that.”

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